THE POLITICAL ECONOMY OF THE MARGINALIZATION PROCESS IN INDONESIA'S "NEW ORDER"

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ABSTRACT

This thesis is aimed at examining the marginalization process which has been undergone by various groups in Indonesian society since the nation's political edifice abruptly changed in 1966 resulting in the economy being integrated into the international capitalist system. Given that the political system is based on an authoritarian rule, the establishment of political power structures unquestionably entails marginalization of large parts of the ruled masses who are considered detrimental to the development of a strong state. As society becomes apolitical, the people are unable to pressure the government to promote their interests, such as giving them a better price for their labor and increasing their standards of living. The weakening of the bargaining position of society *vis-a-vis* the state is exacerbated as incorporation of the national economy into the world economy requires domination and management of the domestic polity which are congruent with capitalist development of the state.

In this analysis, the nature of the New Order state is considered the main causal factor of the marginalization process. The thesis also identifies two other contributing factors, external - world politics and the world economy - and historical - the legacy of pre-colonial Indonesian state's political culture, that of Dutch colonialism's socio-economic stratification, and that of national crises of two political systems preceding the New Order. In addition, the discussion also illuminates the nature of Indonesian society in order to fully comprehend the phenomenon of marginalization in Indonesia.

This study discusses how those marginalized fare after economic liberalization implemented in the mid-1980s encouraged calls for the same

process in the political field.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
Bappenas	*Badan Perencanaan Pembangunan Nasional* (National Development Planning Board)
BPS	*Biro Pusat Statistik* (Central Bureau of Statistics)
Bulog	*Badan Urusan Logistik* (National Logistics Board)
CEBEMO	*Katholieke Organisatie voor Ontwikelingssamenwerking Nederland* (Netherlands Catholic Organization for Development Cooperation)
CIDA	Canadian International Development Agency
CGI	Consultative Group on Indonesia
DESAL	*Centro para el Desarollo Economica y Social de America Latina* (Center for the Economic and Social Development of Latin America)
DPR	*Dewan Perwakilan Rakyat* (People's Representative Council)
EOI	Export-Oriented Industrialisation
GBHN	*Garis-garis Besar Haluan Negara* (Broad Outlines of State Policy)
GDP	Gross Domestic Product
GNP	Gross National Product
GOLKAR	*Golongan Karya* (Functional Groups)
GSP	General System of Preferences
IAIN	*Institut Agama Islam Negeri* (Government Institute of Islamic Studies)

ICMI	*Ikatan Cendikiawan Muslim Indonesia* (The Indonesian Association of Muslim Intellectuals)
IGGI	Inter-Governmental Group on Indonesia
IMF	International Monetary Fund
IDT	*Inpres Desa Tertinggal* (Presidential Instruction Program for Less-Developed Villages)
IPTN	*Industri Pesawat Terbang Nusantara* (National Aircraft Industry)
ISI	Import-Substitution Industrialisation
LBH	*Lembaga Bantuan Hukum* (Legal Aid Institute)
LP3ES	*Lembaga Penelitian, Pendidikan, dan Penerangan Ekonomi dan Sosial* (Social and Economic Research, Education, and Information Institute)
LPSM	*Lembaga Pengembangan Swadaya Masyarakat* (Institute for Developing Community Self-reliance)
LSM	*Lembaga Swadaya Masyarakat* (Self-Reliant Community Institution)
LSP	*Lembaga Studi Pembangunan* (Institute of Development Studies)
Malari	*Malapetaka 15 Januari* (Disaster of 15 January)
Masyumi	*Majelis Syuro Muslimin Indonesia* (Consultative Council of Indonesian Muslims)
MNCs	Multi-National Corporations
MPR	*Majelis Permusyawaratan Rakyat* (People's Consultative Assembly)
NAM	Non-Aligned Movement
Nasakom	*Nasional, Agama dan Komunisme* (Nationalist, Religious and Communist Forces)
NGOs	Non-Governmental Organizations

NIC	Newly-Industrialized Country
NOVIB	*Nederlandse Organisatie voor Internationale Bijstand* (Netherlands Organization for International Development Co-operation)
NU	*Nahdatul Ulama* (Revival of the Religious Scholars)
OECD	Organization for Economic Co-operation and Development
OXFAM	Oxford Committee for Famine Relief
P-4	*Pedoman Penghayatan dan Pengamalan Pancasila* (Guide to Realizing and Implementing the Pancasila)
PDI	*Partai Demokrasi Indonesia* (Indonesian Democratic Party)
Pelita	*Pembangunan Lima Tahun* (Five-Year Development)
Pertamina	*Perusahaan Tambang Minyak dan Gas Bumi Nasional* (National Gas and Oil Corporation)
PERTI	*Partai Tarbiyah Islamiyah* (Islamic Education Association)
PKI	*Partai Komunis Indonesia* (Indonesian Communist Party)
PMA	*Penanaman Modal Asing* (Foreign Investment Law)
PMDN	*Penanaman Modal Dalam Negeri* (Domestic Investment Law)
PNI	*Partai Nasional Indonesia* (Indonesian Nationalist Party)
PPP	*Partai Persatuan Pembangunan* (Unity Development Party)
PSI	*Partai Sosialis Indonesia* (Indonesian Socialist Party)
PSII	*Partai Sarekat Islam Indonesia* (Party of the Indonesian Islamic Union)
PT	*Perseroan Terbatas* (Limited Liability Company)
Puskesmas	*Pusat Kesehatan Masyarakat* (Public Health Centers)
Rp.	*Rupiah* (the Indonesian currency)

SAPs	Structural Adjustment Programs
SBMSK	*Serikat Buruh Merdeka Setia Kawan* (Solidarity Free Trade Union)
SBSI	*Serikat Buruh Sejahtera Indonesia* (Indonesian Prosperous Labor Union)
SPSI	*Serikat Pekerja Seluruh Indonesia* (All-Indonesian Labor Union)
Supersemar	*Surat Perintah Sebelas Maret* (Executive Order of March Eleventh)
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VOC	*Vereenigde Oost-Indische Compagnie* (Dutch East Indies Company)
WALHI	*Wahana Lingkungan Hidup Indonesia* (Indonesian Environment Network)
WNI	*Warga Negara Indonesia* (Indonesian Citizen)
YIS	*Yayasan Indonesia Sejahtera* (Prosperous Indonesia Foundation)

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CHAPTER I

INTRODUCTION

"The world is a place where excessive wealth and greed create poverty and injustice. When one party steals another experiences loss and grief."

Marie-Anik Gagnè, 1994

This chapter introduces the scope of this study, the problem, and the expected result of this case. It outlines the process of marginalization in Indonesia during the period of the New Order government, particularly after the country was progressively incorporated into the world-economy in the 1980s. Some concepts of marginality are briefly introduced for distinguishing the term ' 'marginalization' that I use in this study. A more detailed analysis of causes and manifestations of marginalization in Indonesia is presented in the subsequent chapters.

A. Problem Statement

Generally speaking, studies on marginality are mostly linked to poverty, unemployment and underemployment, lack of basic human needs, and other issues of economic and social deprivation. As national economic development in most countries is carried out within an international capitalist framework, marginalization is perceived as a consequence of such development. Indeed, among world capitalism's basic features are relations of production based on exploitation and commodification of labor and its attendant class inequality[1]. Consequently, economic growth operates to concentrate wealth and control

over the means of production, disproportionately favors those who control the means of production, and undermines labor's bargaining position, as well as excluding large parts of the population from the fruits of development and the benefits of the system. Briefly, capitalism is often considered a crucial causal factor of marginality.

This study, in contrast, views capitalism as merely one of the causal factors of marginality. The political behavior of the state, especially in countries with authoritarian governments, is important enough to be analyzed in order to fully understand marginality. The reason is that marginalization cannot be viewed as a condition that always has to do with materialistic achievement alone. Lack of freedom, lack of protection, and lack of participation, for example, ought to be considered other forms of marginality, because these dimensions are related to the degree of poverty[2].

If marginalization is viewed as a process of the weakening of society's position *vis-à-vis* the state, Indonesia's New Order provides a case study of how marginality takes place within a country, particularly in terms of how those in power tend to secure political power in order to maintain their economic interests. According to Pierre James, a state ought to act to mediate conflicts between foreign capital, domestic elites and the poor[4]. In this context, although the government largely represents the interests of domestic or foreign elites, it must occasionally grant concessions to the poor and middle classes to avert social disturbances. However, a state characterized by authoritarian rule is inclined to promote the ruling elite's interests rather than those of the ruled masses. Thus, such a state's attempts to secure and retain political domination in its hands undoubtedly marginalizes a large part of the people from the existing political and economic order.

As a matter of fact, marginalization is not a new phenomenon in

Indonesian economic and political life. During colonialism, the Dutch controlled the Indonesian population and territories through a system of indirect administration in which political activity was largely limited to a small, educated elite in the urban centers. Through this colonial system, the people could be squeezed to the maximum possible extent. Indonesians were also excluded from the socio-economic structure. According to Kalyani Bandyopadhyaya, during the colonial period,

> economic functions were sharply divided along racial lines, where the Indonesians formed the agrarian base with a subsistence living. Their main occupation was cultivation and to serve as labor in the tertiary sector. The ruling Dutch formed the apex of the socio-economic pyramid. Under the system 'like over the like', the Chinese were encouraged to rise to the position of 'middle traders'. In the rural areas, they acted as retail traders and moneylenders to the *Asli* (indigenous) cultivator, and in the urban areas, they became indispensable middlemen between the *Asli* and the Dutch conducting the purchase and sale of commodities. They were also taken into supervisory responsibility within the Dutch companies to a far greater extent than the Indonesians[4] .

This legacy of socio-economic stratification certainly has had a profound impact on the political economy of post-independence Indonesia.

During the first twenty years after the government of the Netherlands agreed to transfer sovereignty in 1949, there were only a few efforts to incorporate Indonesians into the national political and economic system on favorable terms. Due to the non-existence of a substantial domestic capital-owning class caused by Dutch colonialism, domestic political forces were encouraged to grab the significant economic role. With respect to that, Richard Robison pointed out that, "for indigenous Indonesians the state bureaucracy remained the primary route to power and wealth, thus the vacuum of socio-economic power resulted in by the Dutch retreat was fulfilled by officials of the state, for the bureaucrats were able - gradually in the period before 1965 and massively under the post-1965 New Order - to establish themselves as a ruling estate free of control by parties or other non-bureaucratic forces"[5].

For a decade under the system of parliamentary democracy (1949-1958), political power was secured in the hands of mass-based political parties, so that the political climate was relatively democratic. However, the system failed to provide effective and stable rule. Due to sharp ideological differences among parties, coalition-based governments rose and fell from power with great rapidity. The longest tenure of a cabinet was only two years. There was even a cabinet with only a three-month tenure of office[6]. Consequently, successive governments failed to remove colonial economic structures. Thus, although Indonesia had achieved political independence, the Dutch still exerted a heavy influence on Indonesia's economic life. Together with the local Chinese, they continued to dominate investment in the medium- and large-scale sectors of the economy[7]. The people, hence, were persistently marginalized economically and, to some extent, politically.

Under the political system of guided democracy (1959-1965), which is well-known as the so-called Old Order, the people became much more marginalized politically and economically. The range of groups participating in the decision-making process was narrowed, for political power was now secured by President Sukarno and the military which formed a competitive coalition government. The two political forces increasingly also played a big role in the economic field as President Sukarno established state capitalism to disengage Indonesia from the colonial economy. However, the establishment of state capitalism aimed at building up a strong national economy inevitably led the two political forces to an intense competition for political and economic domination. Consequently, while national economic resources were massively misused to achieve or maintain their respective vested-interests, the large parts of society who were already politically powerless endured the consequences of economic disturbances.

When the New Order government under the presidency of General Suharto took power in 1966, Indonesia's per capita income was among the world's lowest: the GNP in 1966 was US $ 50 per capita, amounting to just half of the GNP in countries like India, Nigeria, and Bangladesh at that time. Poverty was widespread throughout the country[8]. Nevertheless, by strongly focusing Indonesians' energy on economic development rather than on political development, the country's subsequent economic performance was quite remarkable. The pragmatism of the new government combined with the intervention of the American-dominated IMF and the World Bank, the pouring in of foreign direct investment and aid, the oil bonanza, and, then, the rise of a powerful national capitalist class, although capital mostly is still dominated by the local Chinese, have resulted in a robust economy.

Since the early 1970s, the average annual rate of growth has exceeded 7 per cent. Even during the period of the oil shock and world recession in the 1980s, the average annual rate of GDP only slowed to 4 per cent[9]. Between 1970 and 1990, poverty dropped from 60 per cent of the population to 15 per cent; mortality rates fell dramatically, and literacy increased at an exceptional rate[10]. By 1985, Indonesia had successfully overcome its status as the biggest importer of rice in the world and had become self-sufficient in food. Moreover, by the early 1990s, when manufacturing accounted for 19 per cent of GDP, Indonesia's garment and footwear products started penetrating Western markets with some success, so that the country has been recognized as a near-NIC[11]. Based on these achievements, the World Bank has cautiously declared that "if the momentum of development can be maintained, Indonesia can realistically expect to be a solid middle-income country with a per capita income of $ 1,000 by the end of the decade"[12].

Despite this macro-level 'economic miracle', there are still some sections

of Indonesian society unfavorably incorporated into the new political-economic order. In the economic field, for instance, millions of people are still poor, although there has been a spectacular drop in poverty levels. According to the World Bank at least thirty million Indonesians, or about 17 per cent of the population, remain in absolute poverty[13]. Moreover, many Indonesians have incomes only slightly above the estimated 'poverty line'. This group is especially susceptible to fluctuations in the domestic economy, so even a small change in their circumstances can push them below the poverty line. The danger that only a minor rise in the cost of living will lead to even more wide-scale poverty is enhanced by the employment problems. Each year two million new job-seekers appear on the labor market where, despite economic growth, only a limited number of jobs are available. About 600,000 university graduates could not find employment in 1988-1989. Over 60 per cent of the labor force between the age of 15 and 19 with a high school education were looking for work in the same year[14].

The dramatic changing of the global economy in the 1980s, which set new policies to liberalize the economy and hence a change of industrialization strategy from ISI towards EOI, inevitably also caused a large part of the population to become more marginalized. Due to the workings of the market economy, such as allocative efficiency and comparative advantage, Indonesian wage rates, for example, have been the lowest in Southeast Asia. In 1991, even Vietnam could not undercut Indonesia's US $ 10 weekly basic wage[15]. There are also few regulations concerning pollution and environmental problems. Moreover, economic liberalization has hindered the rise of a powerful indigenous entrepreneurial class since efficiency and competitiveness mean taking full advantage of relationships with MNCs and other foreign sources of capital, technology, and international marketing know-how in which much of it is

from Japan, Hong Kong, South Korea, and Taiwan. Briefly, the spread of capitalism in Indonesia has unfavorably incorporated many parts of the population into the current national and international system.

The end of the Cold War has brought winds of change to the Third World, but it has not affected the political status quo in Indonesia. Having succeeded handsomely in implementing economic liberalization and in achieving remarkably high levels of economic growth, Indonesia has determinedly refused to adopt liberal-democratic political reforms[16]. While the wave of democratization sweeps a significant number of developing countries, such as Argentina, Brazil, Chile, and the Philippines, which are also implementing economic deregulation, Indonesia still maintains strong governmental control over its society. The press muzzling imposed on two leading magazines, *Tempo* and *Editor*, and one news weekly, *Detik*, in 1994, the arrests and trials of some intellectuals and student activists, which voice the will of the people, such as wars against corruption and the widening gap between the rich and the poor as well as political freedom; and the government's blatantly improper measures in putting down the upheavals concerning the internal conflict of PDI quite recently are a few examples of the absence of effective political opposition and the lack of political accountability in Indonesia. Thus, the case of contemporary Indonesia illustrates that marginalization persists, because the state can utilize many non-economic variables in order both to achieve a more liberal economy and to maintain control over civil society, despite the recent trend towards the globalization of parliamentary democracy.

B. Research Questions

There are some central questions that I am going to deal with in this study. They are based on the assumption that marginalization takes place given that the strong political domination of the state inevitably excludes elements of civil society from the existing political-economic order. Based on that assumption, this study will highlight five main issues. First of all, who are the marginals? Secondly, under what circumstances can they be considered marginals? Thirdly, what are the causal factors of marginalization? Fourthly, how do the marginals react to their marginality? And finally, how can marginalization be overcome in order to favorably incorporate the whole people into the prevailing political and economic system?

The analysis of these questions will focus on the impact of the political economy of the Indonesian state's behavior, both in its relations with its society and its reactions to changes in the global milieu. By looking at the totality of exogenous and endogenous factors, the incidence of marginality as in the case of Indonesia can be more easily examined.

C. Understanding the Concept

Providing a single definition of marginalization is a very tricky business, because the term does have different meanings according to the variety of analytic perspectives. Therefore, before going into detail, I will briefly introduce some concepts of marginality, which have been used by sociologists, social

scientists, modernists, and neo-Marxist theorists. I will then define the term as used in this study. Further analysis of marginality, both as to its causes and manifestations, will be elaborated in chapters two and three.

The term 'marginality' was first used by the American sociologist Robert Park to analyze individual psychological problems. According to Park, individuals situated on the edge of two conflicting cultures as a result of intermarriage or migration are marginals, because they experience psychological disorientation[17]. As social and economic mobility caused various problems, the concept was later extended to include other types of cultural contact arising from such mobility. Subsequently, the term marginalization was taken up and used differently to describe socio-politico-economic phenomena caused by rapid industrialization in the less-developed countries.

Generally speaking, the phrase 'marginal group' connotes the poor and the powerless, or both. The social scientists who worked for the DESAL viewed marginality to be synonymous with poverty[18]. In common usage in Latin America, marginality has had derogatory connotations. In Portuguese and Spanish *um marginal* or *um elemento marginal* means a shiftless, dangerous ne'er-do-well, usually associated with the underworld of crime, violence, drugs, and prostitution[19]. In this context, thus, marginality is employed to describe precarious conditions and deviant behavior of those living in shanty-towns, slums, and squatter settlements.

At the explanatory level, marginalization has been interpreted by using different perspectives. The modernist school, for example, perceives marginality as a common phenomenon which usually arises during the process of transition to an industrial society. In that process, there are individuals or groups that are left behind and do not participate. Thus, the marginals are those who are out of the system[20]. The DESAL school, who is a part of the

modernists, then defines marginals as "those who are located at the inferior end of the social scale or, more precisely, outside it, as they are not integrated culturally, socially, or economically to society"[21]. Another proponent of the modernist school, Gino Germani, maintained that "marginalization is a process caused by the lack of participation of individuals and groups in those spheres in which, according to determined criteria, they might be expected to participate"[22].

In contrast, neo-Marxist theorists viewed the problem of marginality as structural because it is embedded within the process of dependent capitalist development. Therefore, marginals are an integral part of it[23]. Structuralist writers used the term 'marginalization' with reference to the import-substituting industrialization's inability to absorb the growing contingent of the labor force and to its tendency to expel labor[24]. Pablo Gonzáles Casanova explained marginalization in the context of 'internal colonialism'. He maintained that "marginals are not only forgotten people who are left out of development, but they are also being 'exploited' because the advances in the cities and dynamic sectors are in part based on an ability to squeeze an economic surplus out of labor in the backward zones"[25].

In this study, one of the best ways to understand marginalization is by examining the characteristics of the state. 'Limited pluralism' as proposed by William Liddle, for instance, explains how the state effectively marginalizes the ruled masses. He maintains that "political participation in the Indonesian authoritarian system is regulated through a limited pluralism by using repression, co-optation, and typically a network of state corporatism in an attempt to control opposition to the regime[26]. In his analysis of political parties in Indonesia, Riswandha Imawan asserts that,

> limited pluralism reduces the involvement of political leaders in decision-making processes, particularly because they are mostly selected from state corporatist structures, i.e. mass organizations initiated by the state, for the purpose of political legitimation. Thus, the limited pluralism and the state corporatism have made the parties vulnerable to exclusionary politics in policy making, because the state corporatists have replaced them as the principal tools of expressing the people's demands. Party representatives are gradually forced to stay out of the political system[27].

In a similar perspective, Benedict Anderson offers a picture of the modern Indonesian state as a self-serving entity, pursuing its perceived self-interests at the expense of the other diverse interests in society. He sees the state as greedily consuming the resources and wealth of the nation, while kept afloat with foreign support and oil revenues[28]. In so doing, the people are herded by the ruling party into an automatic vote for the official party without understanding the meaning of the act. They are unable to pressure the government or the businessmen/women into giving them a better price for their labor or increasing their standard of living. Briefly, marginalization in Indonesia can be perceived in relation to the weakening of the political and economic bargaining position of the whole society *vis-à-vis* the state. This state's enormous dominant power in turn severely affects the economic life of certain segments of the society, namely those who are poor and powerless.

Specifically, state power, exercised by a ruling elite in maintaining its own interests, diminishes the capacity of groups in civil society to participate actively in the making of decisions that affects them. The result, exacerbated by the working of global capitalism, is the economic and political marginality of large parts of the Indonesian population. It is in this manner that the concept of marginality will be used.

D. Thesis Statement

The major aim of my thesis is to present an argument that, in the case of

Indonesia, marginalization can be seen as a phenomenon which is precipitated by the unwillingness of the ruling elite to loosen its strong political dominance. As state bureaucracy is the primary route to wealth, political dominance is viewed as necessary to maintain economic interests. In this respect, the implementation of economic development is chiefly aimed at promoting the state's goals. Thus, as long as development is directed to achieve the state's own objectives, such development, led by either the state or international market forces, will neglect the economic welfare of the masses of the population.

I will also argue that the globalization of market economies exacerbates the conditions of those who are already politically marginalized, because it does not encourage democratic life. The implementation of the principles of comparative advantage and allocative efficiency merely results in the weakening of labor's bargaining position and worsens the precarious condition of a large part of people in the country. As a matter of fact, capitalist economic development in most developing countries flourishes within an environment where people lack freedom, protection, and participation. Thus, as long as development is characterized by Western market economy features, marginality persistently exists.

E. Methodology

This case study utilizes a descriptive-analytical approach in an attempt to understand the phenomena of the marginalization process in Indonesia. The study is mainly based on secondary resources: books, journals, newspapers, documents, magazines and other types of publication. In order to support the intention and objective of my analysis, the study uses both qualitative and

quantitative data.

F. Focus of Analysis

The main focus of this study is the political economy of the process of marginalization as a result of interactions among power holders within the ruling circle and between the state, which I interpret as an institutionalization of power, and the world system. The scope of the analysis, which is elaborated in chapters three and four, therefore, is the ruled masses. There is an assumption that it is these ruled masses that have to endure the most negative consequences of ruling class behavior, both in political power competition among themselves and in interactions with the international environment. Thus, this study deals with both the state and the international system.

The time-span primarily covered in this study is restricted to the New Order period (1966 - present), for two reasons. First of all, since the New Order came to power, Indonesia has experienced unprecedented authoritarianism which is not only long lasting, but also relatively stable, although the dramatic globalisation of electoral democracy and market economics is rapidly spreading. Secondly, under the New Order, the country has been experiencing remarkable economic development that had never been achieved before.

G. Organization of the Study

In chapter two I will discuss the major causes of marginalization in Indonesia. There are three sets of factors that are considered as causing a large part of the population to experience marginalization: First, the historical factor - the legacy of pre-colonial Indonesian state's political culture, the legacy

of Dutch colonialism's socio-economic stratification, and the legacy of national crises of post-colonial Indonesia; secondly, the characteristics of the New Order and the nature of Indonesian society; and thirdly, the external factor - changes in the international economic and political order. This last factor to some extent affects the political decision-making process in Indonesia.

Chapter three scrutinizes manifestations of marginality in the New Order era. The analysis will be directed to the following questions: Who are affected by government policies in implementing development which emphasizes maximization of economic growth? What conditions cause marginalization? These questions are aimed at analyzing how marginalization takes place as a result of the state's behavior in responding to the interests of domestic elites and foreign capital on the one hand, and the demands of the people on the other. In so doing, the discussion will be divided into three parts, namely: the period of the establishment of the basic power structure, 1966 - 1974, the era of the narrowing of the political base, 1974 - 1982, and the period of the attainment of supreme control, 1982 - present.

The elaboration of how certain sections of society react to marginality is provided in chapter four, which deals with the following questions: To what extent can marginalization be tolerated? And, how does the government react to the people's demands? Regarding these questions, the discussion in this chapter will be divided into two major parts. The first part elaborates reactions to political marginalization and the second part protests to economic marginalization. In order to fully understand those reactions, in the discussion I will also devote attention to efforts in dealing with marginalization taken by both the New Order government and various societal groups.

Finally, chapter five is the conclusion of this case study. In this chapter I will discuss the prospect of changes for those who are marginalized by the

prevailing economic and political systems.

CHAPTER II

CAUSES OF MARGINALIZATION: A LITERATURE REVIEW

This chapter surveys the legacy of political and economic aspects of pre-colonial Indonesia, Dutch colonialism and post-colonial Indonesia (1949-1965), the nature of both the New Order state and Indonesian society, and changes in world politics and economy; in short, the major factors that cause marginalization. The aim is to suggest an explanatory framework of marginalization in Indonesia, especially during the New Order period. Accordingly, this chapter provides support for two arguments of the study: First, marginalization takes place within a system where the state is politically and economically strong *vis-à-vis* society; and second, with the increasing integration of the national economy into the world capitalist economy, any change in the latter economy contributes to marginalization. The discussion, thus, will be focused on historical, internal, and external factors that cause marginalization.

A. Historical Factors

Marginalization in Indonesia is a persistent process and feature. It can be traced back to Indonesian history, both pre-colonial and Dutch colonial times, and also the post-colonial Indonesia from 1949 to 1965. However, this part is not intended to discuss marginalization that took place during the earliest periods. Instead, it will elaborate the legacy of political and economic

aspects of pre-colonial Indonesia, particularly those of Javanese kingdoms, of Dutch colonialism, and of two political systems preceding the New Order that contribute to the current marginalization process.

1. The Legacy of Pre-Colonial Indonesia

The political behavior of Indonesian post-colonial governments is reminiscent of that of earlier Javanese kingdoms. According to Riswandha Imawan[1] there are some factors that caused Indonesian political culture to be heavily influenced by Javanese culture. First of all, historically, Majapahit Javanese kingdom (1309-1527), the greatest of the pre-Islamic states of Indonesia, succeeded in bringing most of the Indonesian islands under its domain and in spreading Javanese ideas among other ethnic groups. Furthermore, economically, Java is the most developed island in the archipelago, mainly due to the Dutch penetration beginning in the early seventeenth century. The Dutch managed the archipelago from Java, leading the island to become of strategic importance. Therefore, most Indonesian pressure groups established their headquarters on Java in order to enable them to capture Dutch attention and to share opinions among elites of ethnic groups. Finally and the most important, given that sixty per cent of Indonesians live on Java, and that among 300 ethnic groups in Indonesia, the Javanese are the largest group[2], it is understandable that Indonesian leadership has been dominated by the Javanese or by leaders from other ethnic groups that tended to adapt to Javanese culture.

One Javanese political idea adopted by post-colonial governments is the concept of power: power should be integral, one, and complete[3]. In Javanese kingdoms, power was fully concentrated in the hands of the ruler. Based on the

principle "there is only one sun in the world", the power of pre-colonial Javanese kings were unchallenged[4]. Accordingly, the idea of undivided power required a sharp distinction between the ruler and the ruled, which put the latter on the periphery of the political system[5]. Such dominant power led the kings to be the owner of everything in the world: not only the owners of the country or of property, but also the owners of one's very life[6].

The entrenchment of the idea of undivided power inevitably led post-colonial Indonesia towards authoritarianism. Intense political competition among secular elites whose power base laid initially within mass-based parties during the parliamentary democracy period caused Indonesian political life to be persistently marked by a steady centralization of power. At first, President Sukarno and the military formed a coalition government to dominate society. Later, the military was the only actor that dominated the national political stage.

Indeed, compared to many other post-colonial governments, in the New Order military-based government, the state is quite strong *vis-à-vis* society. As any other authoritarian government, the New Order is also the single most important actor in economy, society, and polity. Obviously, there are no socio-political forces that can challenge the regime, which has become the only dominant political power since 1966.

In relations between state and society, this political dominance undoubtedly narrows the scope for societal groups to influence the content and direction of public policies. In contrast, state officials do monopolize control over policies, so that policy is a reflection of state's interests, rather than of those of any extra-class or group[7]. The New Order state is, thus, almost entirely detached from and unresponsive to societal interests. Given the exclusion of societal input, the basic national situation has been essentially unchanged since colonial times[8].

In addition to the idea of centralized power, pre-colonial Javanese kingdoms also bequeathed techniques to maintain authority which was based on patrimonialism, namely a kind of relationship used to maintain political power by which a single ruler disposes of state wealth and power by virtue of traditional authority[9]. In earlier times, Javanese kings usually controlled their countries through an indirect rule system in which the kings granted considerable autonomy, wealth, prestige, and protection to regional overlords or vassal lords as well as other potential opponents, such as princes and regional leaders, within a network of patron-client relationships. The aim of dispensing material rewards and opportunities was to maintain centralized authority, particularly over populated areas which were physically isolated[10].

Because for indigenous Indonesians, state bureaucracy remains the primary route to power and wealth, patron-client relationships become entrenched and characterize post-independence governments. Due to such relationships, the governments, according to Yoshihara Kunio, can dispose of economic resources under its control or intervene in the economy with impunity[11]. The failure of successive governments and that of President Sukarno to build a national economy through the promotion of indigenous capital in the 1950s and the establishment of state capitalism in the 1960s obviously indicated how political parties and the ruling elite of the Old Order misused state capital to maintain their political power.

Under the New Order, patrimonialism is quite intense for the political system has been characterized by the more traditional model of power based on a clique headed by a strong leader. Such complete dominance enables those in power to distribute bureaucratic offices to civilian and military factions in the government. In turn, those who hold bureaucratic posts use the offices as a means of obtaining extra income and providing its officers with opportunities

to earn extra money after retirement[12]. Some of the largest private companies owned by dominant military bureaucratic groups are as followed:

Group	Company
Department of Defense	PT Tri Usaha Bakti
Military Commands	INKOPAD (Army)
	INKOPAL (Navy)
	INKOPAK (Police)
	INKOPAU (Air Force)
Army Strategic Reserve	Yayasan Dharma Putra
Special Operation Ass. Group	Pan Group
	Pakarti Group
	Berkat Group
Siliwangi Division	PT Propelat
Department of Interior	PT Poleko

Source: Richard Robison. *Power and Economy in Suharto's Indonesia.* Manila: The Journal of Contemporary Asia Publishers, 1990, p. 15.

A corollary of patron-client relationships is the involvement of individuals who do not hold power but have connections with the government and use those relationships for business advantage. In this respect, the government as the patron allocates licenses and concessions to them in return for money to underpin those in power. Under the New Order government the need for dynamic economic sectors in order to develop the country along capitalist lines has encouraged the local Chinese to play their role in the economy.

However, the striking result of such a relationship is the involvement of presidential and prominent official families in business[13]. The emergence of *Bimantara* Group, *Humpuss* Group and *Citra Lamtoro Gung* Group, all of which are the biggest conglomerates in Indonesia owned by the president's family, are a few examples of business advantages gained through political patronage. In so doing, major local Chinese business groups have become the main counterparts of those families. The fact that the Chinese have independent sources of capital and independent control over trading and financial networks makes the power holders prefer them to indigenous clients[14]. Thus, as a whole,

patrimonialism obviously marginalizes the people because "politics is characterized, not by conflict over substantive policy issues, but competition over material rewards and spoils. Those members of the elite nearest to the pinnacle fare the best. The interests of members of society who are not of the elite are simply repressed"[15].

Although the inheritance of Javanese political culture contributes to marginality of large parts of the population, it is not the only causal factor of marginalization. Three and a half centuries of Dutch colonialism as well as some other factors discussed in the second and third parts of this chapter undoubtedly also cause many socio-economic problems which have severely affected most Indonesians up to the present time.

2. The Legacy of Dutch Colonialism

In 1949, when the Dutch formally retreated from Indonesia, they left the country with a very complex set of problems of development such as poverty, acute unemployment, high levels of rural-urban migration and spatial pattern of economic activity. Dutch colonialism is, thus, obviously one of the major factors which contributes to the marginalization process in post-independence Indonesia. The forced incorporation of Indonesia into the Dutch territory and especially into the world-economy, which enabled the Dutch to extract the surplus of Indonesian natural resources at the maximum level, not only caused the utter impoverishment of the Indonesian masses, but also created a deep division between territories and markedly uneven development at all levels.

Although the early establishment of capitalist production in Indonesia generally centered on the production of food and raw materials, substantial economic surplus which was generated within the plantation sector could be

used to significantly reduce the deficit in the Netherlands' national budget and the building up of fixed infrastructure facilities for the Netherlands' economy[16]. The entire profit from Indonesia was, therefore, siphoned off from the country in order to boost the Dutch home economy. Such enrichment severely affected the vast majority of Indonesia's population, especially in Java.

The fact that Java was the most fertile island in the archipelago and had more population than other islands in Indonesia, and the Dutch economic role in the world economy as a major supplier of tropical raw materials and foodstuffs to the markets of the rapidly industrializing countries* encouraged the Dutch to highly concentrate their activities on Java. The colonial policy, particularly that of state plantations, which was implemented in Java was quite successful, despite the sharp contrast in colonial policy between Java and other islands. The value of exports, for example, increased from 12.8 million guilders in 1830 to 74 million guilders in 1840. During the same period, the production of coffee increased four-fold, while that of sugar increased ten-fold. Additionally, budgetary surplus/*batig slog* of the colonial government's revenue contributed 9.3 million florin per annum and 14 million florin per annum in the 1840s and 1850s respectively to the Netherlands[17].

However, although the people in Java were vital to the development of the estates and cash-crop production, they were never able to become properly part of it. The majority of the rural population were 'locked' in the highly rice subsistence sector, where their numbers increased rapidly: from 96 persons per square kilometer in 1817 to 940 by 1940[18]. In other words, the communities

* Dutch capitalism was weak. Following the loss of the Belgium provinces in 1830, Holland was left with limited manufacturing capacity. Thus, there was no imperative to open up markets for manufactured goods. The Dutch performed an intermediary role in the world-economy, supplying tropical raw materials and foodstuff to the markets of the rapidly industrializing countries. See Chris Dixon. *South East Asia in the World Economy*. New York: Cambridge University Press, 1991 and MC Ricklefs. *History of Modern Indonesia*. London and Basingtoke: The Macmillan Press Ltd., 1981.

became major sources of labor and of food for the export sector. Because of the rapid increases of population and their exclusion from the capitalist sector, "communities in Java were turned in on themselves and through a process of 'involution' a situation of mass shared poverty was created[19]. Given this state of affairs, there were substantial population movements from rural to urban areas, so that Java became the most congested and increasingly impoverished metropolitan island and this continued into the post-colonial period.

Until the mid-1970s, the poverty problem in Indonesia was predominantly a Javanese problem. The 1976 World Bank calculations indicated that although Java made up 65 per cent of Indonesian population, 70 per cent of the urban poor and 74 per cent of the rural poor were located there[20]. Only after renewed and more sustained efforts undertaken through the 1970s, did the incidence of poverty began to decrease.

Another deleterious consequence of Dutch colonialism, which was inherited by modern Indonesian governments, is the creation of a system in which capital was carefully kept out of the hands of the indigenous population. Only the Dutch and Chinese had power to accumulate capital. Being practically jammed between Dutch import and export monopolies at the top level and the masses of the Indonesian peasantry at the bottom, the development of capitalist relations of production encouraged the Chinese to play a major role in the economy. Due to the transformation of the colonial economy from mercantilism to capitalism in the late nineteenth century, the need for adaptable cheap labor to do the work of clerical and of supervisory personnel, and of traders and merchants to set up services and provide the goods needed in remote or newly developed areas caused the Dutch to 'import' Chinese[21]. The Dutch, then, made them an 'exclusive' ethnic group with a certain socio-economic function, the role preponderantly being as intermediate trader or the

small and middle-scale merchant.

There were obviously advantages in placing non-indigenous people in an important intermediate position. Richard Robison pointed out that their insulation from the local population made them politically vulnerable and dependent, so that they were easily used as an instrument to exploit the indigenous[22]. Thus, being considered 'foreign orientals', the Chinese were practically barred from becoming peasants. They could not own nor lease land[23]. Moreover, they were not involved in political affairs and government administration since contact between Dutch officials and local inhabitants had been mainly confined to the indigenous elite whose political power was feeble. Briefly, the Dutch legal system, which developed in colonized Indonesia, left no option to the Chinese but to fulfill that role.

The Dutch also benefited from Chinese trading companies because of their degree of economic organization and efficiency, and their dedication to the process of accumulation. The Chinese trading family was a resilient institution situated within a wider clan/kinship-based economic association which was an exclusive and mutually supportive network of supply, credit and distribution. Not surprisingly, due to the quality of Chinese capital, the Chinese were empowered to dominate rural trade and monopolize road tolls, bazaar fees, salt collection and sale, slaughter fees, customs duty, and tax farming[24]. Thus, Chinese capital was restricted to those areas unattractive to the Dutch.

Following the decline of state control over the economy and the emergence of private capitalist production in the latter part of the nineteenth century, the Chinese increasingly became indispensable middlemen. Their economic activities not only expanded to retailing, credit, and distribution, but also penetrated such small-scale manufacturing sectors as *kretek* cigarettes, textiles, *batik*, beverages, and foodstuffs traditionally dominated by indigenous

petty commodity producers. By the end of the colonial period, while the Chinese had established dominance over domestic trade and distribution networks, the role of the indigenous merchants bourgeoisie was eroded altogether.

The exclusion of the indigenous bourgeoisie from the socio-economic structure actually had occurred since the VOC established its political and mercantile hegemony over Java in the seventeenth century. As the VOC monopolized international trade in Indonesia, the Javanese traders were seriously damaged, because, according to Richard Robison,

> the most important of the Javanese traders were merchant princes whose mercantile activities relied heavily upon the exercise of the political power enforce taxes and tolls on trade and to control sources of supply and trade routes. The decline of these Javanese merchant princes left only a residue small-scale indigenous traders who spread into the agrarian hinterland of Java[25].

Thus, among Indonesians there could hardly develop a strong middle class, for the group mainly consisted of peasants and an urban proletariat. Consequently, they could not form the social basis for political transformation of the social and economic order after the Dutch formally retreated from Indonesia .

It was this socio-economic structure which inhibited a further development towards integration and assimilation of Chinese into the Indonesian ethnic group in the archipelago. In post-independence Indonesia, the social and historical background of the Chinese economically marginalizes the indigenous. Yet, Chinese economic predominance socially and politically marginalizes the Chinese themselves from Indonesian society.

3. The Legacy of National Crises of Post-Colonial Indonesia

In the modern history of post-colonial Indonesia, political, economic, and social conflicts persistently destablized both successive governments in the

1950s and the more authoritarian government in the 1960s. The conflicts inevitably caused national crises that set the scene for the disintegration of the parliamentary system and, later, of the Old Order. More importantly, the conflicts drew the military into the political arena that eventually gave the rise to the establishment of a military-based government, the New Order.

During the parliamentary democracy period, political power was secured in the hands of coalition-based governments which reflected to varying degrees the fluctuating influence and interests of major political parties. However, none of these parties were able to represent or constitute specific interests of any class in a cohesive way by the fact that no party secured more than 25 per cent of the seats in the parliament[26]. The political parties represented in the parliament were, therefore, unable to work out long-term alignments. The inability of coalition-based governments to overcome party differences, which resulted in short-lived coalitions, led President Sukarno to suspend the parliamentary democratic system.

Economically, the disillusionment with the system was caused by the fact that political parties functioned as patronage machines furthering the interests of their adherents rather than the welfare of the nation. Initially, the policy-making elite attempted to transform the colonial structure of the economy into a more viable and national economic structure. In so doing, the means of production and distribution were transferred from the hands of the Dutch and the Chinese to those of the Indonesians by protecting and subsidizing indigenous entrepreneurs through preferential allocation of import licenses in the so-called *Benteng* program. However, the indigenization process failed to improve the position of the indigenous bourgeoisie. In 1957, 70 per cent of the plantations in Java and Sumatra were still foreign owned and 19 per cent Chinese owned[27]. Apparently, Indonesian capital was making little headway

against Dutch and Chinese interests.

As a matter of fact, in launching the program, factions and political parties exploited cabinet office to allocate licenses, concessions, and credit to indigenous entrepreneurs associated politically with them. Thus, those who participated in the program were political clients rather than genuine entrepreneurs. Not surprisingly, most of them became license brokers who sold their politically derived concessions to the Chinese rather than using them to establish genuine business ventures[28]. Consequently, the indigenous bourgeoisie, which commanded neither the economic nor, more importantly, the political power, were not able to replace the Dutch. As the system failed to dismantle the colonial economy and to remove the Chinese from their predominant economic position, in 1957, President Sukarno nationalized Dutch corporate holdings and turned to state capitalism.

Politically, intense ideological conflicts among major parties, particularly the Masyumi, PNI, and PSI menaced the integration of the young republic. The state's first steps towards centralization were disturbed by several serious regional rebellions in West Java, Sumatra, South Sulawesi, and Moluccas. The introduction of Martial Law in 1957 enabled the government to quell the movements. However, political developments that occurred since that time have had far-reaching effects on the Indonesian political system and the military's role in it.

In contrast to the parliamentary system, the new political system, the Old Order, was relatively stronger. Its political structures were built around two centers of authority: President Sukarno and the military. The position of the president was strengthened, so that he was not responsible to the parliament. The authority of the parliament was weakened instead by the fact that those in the parliament were determined by the President and the military. This means

that although political parties still participated within the system, they lost much influence. The military was given opportunities to play its role which had a dual function, both in guarding the national interest and in creating a strong government. However, the new political system provided neither stable nor effective rule. It even brought about disaster on the economic front.

As a matter of fact, the intense intervention of the military in politics, administration and economy made President Sukarno realize the danger of relying excessively on them. Due to the weakening of political parties, Sukarno's authority neither had an organizational nor a social base. Nevertheless, to counter-balance the military's political power, the President rendered the PKI as his political mass base. His dissatisfaction with the major political parties automatically made the PKI to be the only party whose political role became increasingly influential. By the mid-1960s, it had over three million members. It is in this respect that President Sukarno decided that an alliance with the party as essential to his competitive coalition.

The President himself, actually, proved to be less competent in administration. He concentrated more on symbolic projects, particularly on the recovery of West Irian and the formulation of ideology called Nasakom[29]. At the international level, he displayed such wasteful diplomacy as the confrontation against Malaysia, the withdrawal of Indonesia from the United Nations, World Bank, and IMF to clearly express his anti-capitalist attitude. In his attempts to replace the colonial, export-oriented, agrarian economy with a more self-sufficient and industrialized economy, Sukarno created state capitalism as the most appropriate policy instrument. Nevertheless, the policy that was aimed at dismantling the colonial economic stranglehold and eliminating Chinese economic dominance, in fact discouraged the rise of a powerful indigenous bourgeoisie and further caused domestic economic ills.

The ex-Dutch corporate holdings, following the nationalization in 1957-1958, in fact, were not transferred to the hands of the indigenous bourgeoisie. Instead, most of the Dutch corporate interests were put under military supervision in the form of state corporations. Thus, the military, which dominated state companies, emerged as the new economic power that had opportunities to generate finance for the political survival of factions, families and even the government[30]. Not surprisingly, during this period, there were high levels of corruption in the government bureaucracy that exacerbated national economic conditions.

For the PKI itself, sharp competition between the military and Sukarno gave it an opportunity to gain legitimacy amidst the weakening of political parties within the authoritarian political system. The party, thus, could promote its political objective: a social revolution which was achieved by gradually increasing its power that enabled it to neutralize the military. Mainly due to the non-existence of class analysis in Indonesia, in which all Indonesians were actually proletarian as the Dutch retreated from the country, by emphasizing 'attitude' rather than class origin, the PKI succeeded in making itself the largest communist party in the developing world[31].

The power struggle between the PKI and the military had essentially to do with maintaining social order, in which, for the military, their political domination was secured. Such domination enabled the military to maintain their economic appanages[32]. Thus, the PKI's favored position strikingly threatened the military's dual function.

The result of the protracted and complex process of political, economic, and social conflicts was disaster on the economic front. State corporations failed in developing an industrial base, mostly because of corruption, mismanagement, a shortage of investment and foreign exchange for import of

technology and spare parts. Social and economic deprivation of the masses reached unprecedented levels. Food supply fell to only 1,800 calories per capita per day. Inflation, which reached 600 per cent, was phenomenal even by Indonesian standards. The purchasing power of *rupiah* had declined by half. The cost of living index in Jakarta increased from 280 points in 1959 to 14,371 points in 1965. Additionally, there were no foreign reserves to speak of and a national debt of over US $ 2 billion[33]. Nevertheless, a coup attempt, albeit abortive, on September 30, 1965 ended the national crises.

Despite the confusion whether and to what extent the PKI was involved in the coup attempt, especially among many observers outside Indonesia, it is obvious that the main cause of the coup was the failure to maintain the old balance of power. The far-reaching consequence of the abortive coup was the elimination of the PKI from the political stage, which directly resulted in the downfall and political impotence of President Sukarno, and left the military as the most powerful political force. General Suharto, who succeeded in crushing the party, then emerged as the new power holder. In 1966, the New Order government which was entirely dominated by the military was formally set up under his leadership.

B. Internal Factors

Authoritarian governments are a common phenomenon in developing countries, where states are the most dominant actors in polities, economies, and societies. Such dominance, certainly, makes relationships between state and society to be, to varying degrees, tilted towards the former. Consequently, there are some segments in societies who are incorporated into the system on unfavorable terms or in other words, they are marginalized within the system.

This part identifies, firstly, the New Order's characteristics in order to examine to what extent the state's behavior contributes to marginalization, and secondly, to analyze the nature of Indonesian society per se in order to comprehensively understand marginalization experienced by some groups of the population.

1. The Nature of the New Order

Lack of political legitimacy characterized the New Order regime at the onset of its abrupt emergence in the political stage. Hence, in order to legitimate its rule, the regime put strong emphasis on its performance, primarily in terms of faster economic growth and lower income inequality. Demonstration of socio-economic efficacy is viewed important not only to contrast the regime from its predecessor, but also to derive popular support. As the Old Order brought the country to the brink of economic bankruptcy, the New Order elevated economic rehabilitation and development to political instruments for the establishment of a new political system.

The fact that economic development has become a vehicle to attain political legitimacy is obviously indicated by the character of the development per se. The reintegration of Indonesia into the world economy has accelerated penetration of capitalist relations within the country. Largely due to the lack of capital, technology, and skill, the New Order government has welcomed the capital and skills which governments and corporations of capitalist advanced countries have been willing to deploy to Indonesia. The 'openness', of course, has facilitated a rapid expansion of the modern sector of the domestic economy. On the other hand, it has required domination and management of the domestic polity in ways which are congruent with the capitalist development. Therefore, authoritarianism has been presented as a necessary component of

such development[34].

With authoritarian approaches to development, Indonesia has experienced impressive economic growth. The economy expanded at an average rate of 5.5 per cent and 7 per cent in the 1980s and 1990s respectively. The standards of living of average Indonesians has much improved particularly in comparison with their economic condition during the first twenty years of independence. Indeed, the World Bank claims Indonesia's income inequality has declined substantially since 1965[35]. Successes make General Suharto is commonly referred to as 'father of development'/*Bapak Pembangunan* by government controlled media. Through strong economic performance the regime expanded its political domination until, by the 1990s, the political power at the top became virtually unchallenged.

Although development has been made in the economic field, the political system of the New Order is, in fact, quite similar to that of its predecessor. The legislature, MPR and DPR[*], remains far weaker than the executive branch and has little capacity to constrain the president, government and bureaucracy. Despite an apparent similarity to the US congressional system, the Indonesian presidential system of government does not recognize 'checks and balances'. The parliament merely exercises little independent authority, by the fact that over half of the members of the parliament are appointed by the president. Thus, there is little prospect of any serious challenge to the executive. Due to the feeble legislature, since 1966, General Suharto has been unopposedly elected and re-elected six times[36].

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[*] Constitutionally, the MPR holds the supreme political authority to elect the president and vice-president every five years and to ratify the GBHN. It is made of 1,000 members: 500 are appointed by the government and the remaining 500 comprise the full membership of the DPR. The DPR is empowered to monitor government actions and initiate legislation itself. With 500 membership: 360 are elected and 100 are appointed, 100 are from the military, and 25 are from other groups, it subordinates to the MPR. See Robert Cribb. *Historical Dictionary of Indonesia*. Metuchen, New York and London: The Scarecrow Press Inc., 1990.

The major element that differentiates the New Order from its predecessor is that the military is the single actor in the political scene. The military is not only the basic source of the President's power, but also the main pillar of the regime. Their support for the President enables the executive to thoroughly dominate the parliament and to manage the electoral process to ensure majority support there. The fact that the military already appeared at the center of the political stage and became an important part of the Old Order also encouraged the military to persistently and more actively play its role in the national political arena. Through the dual function, which is enshrined in law, the military dominates all aspects of the regime, particularly until the late 1980s.

Senior officers held key posts in the bureaucracy and regional administrative service, plus senior ambassadorial posts and top jobs in state enterprises. Roughly one-third of the cabinet ministers were either military officers or former officers, while one-fifth of the seats in the parliament, the DPR, were allocated to them. They also made up an overwhelming majority of provincial governors and a substantial proportion of district heads. Additionally, the supervisory reach of the military had also been extended at almost every level of administration[37]. The widespread movement of military personnel into the positions of authority within the state bureaucracy made the state extremely authoritarian.

However, despite the role as the main pillar of the regime, the military is, in fact, a dependent force for two reasons. First of all, the military has always had to share power with civilian elements. In the early struggles to overthrow Sukarno, they worked together with political parties and mass movements. Since the economic development became the main priority of the regime in order to derive political legitimacy, they have worked with ministerial technocrats. In order to ensure popular support for the regime they share the

political power with the bureaucracy and Golkar, the official party representing the New Order. Secondly, the objective of the establishment of the New Order political system is social control, not military control[38]. By the end of the 1980s, as the regime had successfully held civil society in check, the political and administrative power of the military declined. Adam Schwarz notes that,

> Suharto in the late 1980s no longer needed - nor cared - to share the political limelight with the armed forces. Like the political parties and the civil service, the military was expected to endorse and implement the executive's policies, not share in the formulation of these policies[39].

Another outstanding feature of the New Order regime is the appropriation of the state by its officials which, in turn, gives rise to the so-called 'bureaucratic capitalists'. As in the 1960s, the bureaucrats have gotten involved in various economic activities, particularly those have to do with the allocation of oil drilling, leases, mining leases, forestry concessions, import and export licenses, government contracts for construction and supply, and state bank credit. Most of the bureaucrats use state capitalism to raise funds for directly political purposes because, according to Richard Robison, "in a situation of intense competition for power between factions of the ruling military oligarchy, each must have access to its own sources of finance to bridge the gap between regular budgetary allocation and actual political need"[40]. To that aim, such state corporations as Pertamina, Bulog, and IPTN, and other key or strategic industries, become their economic fiefdoms. Nevertheless, in contrast to the Sukarno era, in running the corporations, bureaucratic capitalists in the New Order have allied with actual entrepreneurs, namely foreign and Chinese. Therefore, because the state occupies a strategic position in the economy, the dominant national wealth sources do not produce profit for a national bourgeoisie, but revenue to the state which participates in the exploitation of these resources in production-sharing agreements with international

corporations[41].

In addition to 'bureaucratic capitalists', appropriation of state power leads to the emergence of what Yoshihara Kunio called 'rent-seeking capitalists' or in Richard Robison's term 'client capitalists'. These capitalists are family members of those in power and major Chinese business groups associated with the ruling elite. They seek opportunities to become the recipients of the rent that the government can confer by disposing of its resources, offering protection, or issuing authorization for certain types of activities that it regulates[42]. In other words, the survival of their business relies heavily on concessions and administrative monopolies. Hence, it can be said that the New Order promoted the emergence of a national capitalist class at the expense of depoliticizing the society and neglecting the welfare of the people.

Although New Order's political behavior is very similar to that of its predecessor, the regime has been remarkably long lasting and stable. Apparently, besides the military, the technocrats also play a crucial role in underpinning the regime's domination of the Indonesian politics. There are three main factors explaining the significance of partnership between the military and the technocrats. First of all, the military lacks the necessary skills in restructuring the chaotic economic condition faced in 1965-1966 and in developing the economy. In this case, while the military has responsibility for providing a framework for political stability, the technocrats are responsible for economic development. This gives the military a good reason to actively participate in politics.

The second reason is their prestige abroad, in Western aid donor circles, as well as their capacity to overcome the periodic economic crises faced by the government. Indeed, due to the partnership, within three years of economic rehabilitation, the government successfully curbed inflation, stabilized the

rapidly-depreciating *rupiah*, and negotiated debt rescheduling and obtained foreign aid and private investment to restore productive capacity[43]. When the post-oil boom in the 1980s produced a severe revenue crisis for the government, their proposals on a shift in economic policies towards progressive deregulation of the economy and much greater reliance on the private sector were also remarkably successful in coping with the crises.

And finally, the technocrats have little political weight because of their lack of organizational backing. Their lack of domestic bargaining strength made them essentially instruments of the regime rather than partners in power[44]. However, the result of this 'partnership' are remarkable: fast economic growth which is boosted by political tranquillity, a rapid expansion of the modern sector of the domestic economy, and above all, a proof to the international audience that not all military-based regimes are bad.

To a large extent, foreign aid is also a significant variable which has contributed to the establishment of the strong New Order. Richard Robison pointed out that the state's ability to sit on apparent isolation from domestic social forces is the result of its capacity to derive finance from foreign bourgeoisie, not only in the form of oil and mineral revenues, but also in the form of high levels of foreign loans[45]. External funding of development was quite massive during the formative years of the regime. Over 50 per cent of the funds for the first Pelita were provided by foreign investors and donors. In 1971/2 - 1973/4, the volume of aid grew rapidly from US $ 0.64 billion to US $ 0.88 billion. Although Indonesia's own contribution to its economic development program has grown considerably through the years, foreign aid has continuously flowed in. In 1991 the biggest donors were the World Bank (US $ 1.6 billion), Japan (US $ 1.3 billion), and the ADB (US $ 1.1 billion)[46]. It was the IGGI, a group of thirteen Western countries, Japan, the IMF and World Bank,

set up in 1967, that guaranteed sustained foreign aid and investment in order to accelerate economic development. In 1992, following the establishment of the CGI shortly after the dissolution of the IGGI (it will be briefly discussed in chapter III), all former members of the IGGI except the Netherlands agreed to a slightly increased level of support over 1991, committing over US $ 4.9 billion[47].

The major factor that encouraged the pouring in of foreign aid was oil. Indonesia benefited from the first and second oil booms of the 1970s. Net oil earnings rose from US $ 0.6 billion in 1973/4 to a peak of US $ 10.6 billion in 1980/81. In 1980/1, oil accounted for 75 per cent of export earnings and 70 per cent of budget revenues[48]. The massive revenue inflow created by oil price rises enabled the government to pay for investment in large basic infrastructure projects to lay the basis for private investment in such sectors as natural resources exploitation and manufacturing, as well as to increase economic welfare of the masses of people, especially the poor. More importantly, the oil boom has become the supply of external sources of legitimation, combined with the relief from the requirement of serious domestic taxation, that has enabled the New Order government to rule with only a modicum of substantial legitimacy[49]. It is in this way, the oil sector had lubricated the political machine of the New Order in a sense that the regime could safely place economic above political development.

In addition to the tangible factors, there are also two other intangible factors that have underpinned the New Order's enormous political domination over society. The most important is ideological indoctrination which has been a powerful instrument in persuading people to accept government policies, ensure a high degree of outward conformity towards the wishes of the authorities, and reduce their need to rely solely on the battery of severely repressive controls at their disposal[50]. Since independence in 1945, Sukarno

has made *Pancasila** as a device to suspend conflicts between deeply antagonistic ideologies. However, under the New Order *Pancasila* has served to maintain social control in various ways since it was proclaimed as the sole national ideology. As the ideological basis of Indonesian nationhood any deviation to the left or the right, either towards communism, 'laissez-faire capitalism', or Islamic extremism, is deemed a potential threat to national unity. Thus, not only has it undercut the legitimacy of ideologies, but it has had the effect of constraining the public expression of different ideas and opinions within the limits of what is safe and uncontroversial. Moreover, all social and political organizations are required to acknowledge *Pancasila* as their sole ideological foundation. This was enshrined in law in 1982, so that the state could always maintain unanimity and consensus within society.

The final reason why authoritarianism of the New Order is quite entrenched is that because the regime does not take the chance of letting society have a taste of what democracy really involves. The fact that political parties merely play a decorative role as they do not have their own guiding principles, people cannot mount any effective challenge to the government. Not just that the vote count is rigged, but the 'opposition' is carefully controlled and 'campaigning' is limited[51]. As the process of elections is carefully controlled at

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**Pancasila* is the state ideology, in which the state recognizes religious pluralism (Islam, Catholicism, Protestantism, Hinduism, and Buddhism). It consists of principles of belief in one God, just and civilized humanitarianism, united Indonesia, democracy guided by wisdom through consultation and representation, and social justice for all the Indonesian people. Being developed from a deep-rooted national philosophy, it was initially formulated by Sukarno in 1945 to become a tool to resist an Islamic state. Under the New Order government, efforts to entrench *Pancasila* in society are quite massive and intensive since it is viewed as the main key of national unity. Thus, in order to prevent the so-called threats to national unity - from among others, communists, radical Muslim, and Westernized liberals - P4 has become a part of educational curricula at all levels. In 1984, all political parties, non-commercial, and non-governmental organizations were required by law to adopt *Pancasila* as their sole guiding principle, so that critics and opponents of the regime know they must resort to self-cencorship on 'sensitive issues in order to keep well inside the limits of what is permissible. For further explanation see Robert Cribb, *op. cit.*, p. 34 and 342, Nawaz B. Mody, Michael Vatikiotis, and Hal Hill.

every stage, elections, consequently, are much less likely to run out of control. It is all these factors that makes the New Order state very strong and causes most Indonesians to be marginalized.

2. The Nature of Indonesian Society

Analysis of the marginalization process in Indonesia cannot be merely perceived as the weakening of society's position vis-à-vis the state. As a matter of fact, Indonesian society is neither homogenous nor unified. Despite the nation's motto Unity in Diversity/*Bhineka Tunggal Ika*, ethnic identity, for example, is of critical importance for most Indonesians. Local expressions of ethnic and religious autonomy in West Java, West Sumatra, South Sulawesi, and the Mollucas, which erupted into wars against the central government in the 1950s, indicated so. In the New Order era, while a number of people have adopted modern life patterns, consumer culture, and progress disseminated from Jakarta with enthusiasm, others have considered Jakarta's expanding control over many areas of people's lives as a form of neo-colonialism. Thus, the plurality of Indonesian society has obviously created segmentation which is both severe and multifaceted with divisions along racial, ethnic, religious, regional, and class lines. Consequently, marginalization also takes place among segments within society itself.

The most striking division within modern Indonesian society is a deep cleavage between the local Chinese and the indigenous. Socially, Chinese are members of an unpopular minority subject to constant discrimination and extortion. They are regarded as something like second-class citizens. Post-independence governments have weakened their cultural identity. Chinese language publications, signs, and schools were banned, and Chinese small

traders were outlawed from rural settlements. They were also encouraged to change their Chinese names to more Indonesian-sounding names, and to contribute financially to local developments. Additionally, the New Order government differentiates against them by terming them WNI, a term reserved exclusively for Chinese and certain others of 'foreign' origin[52].

The fact that the Chinese economic role flourished under the colonial presence, and prospered even more after the Dutch retreat has caused most of the indigenous people to adopt the view that all Chinese are the same, once a Chinese, always a Chinese, that is someone who exploits Indonesians[53]. The Javanese even have long held the view that the Chinese are culturally and economically arrogant[54]. The emergence of Chinese economic power at the cost of the decline of the indigenous bourgeoisie has made the Chinese to be continuously hated and resented. Not surprisingly, since the period of parliamentary democracy, outbreaks of anti-Chinese violence have frequently occurred. But unlike the preceding governments, the New Order government has so far succeeded in containing anti-Chinese disturbances before they spread.

There are some major causes of this immense racial hatred. First of all, it is clear that Chinese-owned capital is so integral to the structure of the Indonesian economic life that it is not easy to affect their business activity. Having had long established and well-structured, extensive business networks, Chinese capital benefited from the nationalization of Western capital, restrictions on the entry and operation of foreign capital, and protection and promotion of domestic capital[55]. Richard Robison maintained that despite attempts by political parties, the state and indigenous bourgeoisie to politically constrain Chinese economic influence, their economic dominance has consolidated in the post-colonial period, largely because their economic

competitors were so weak[56]. Thus, the fact that Chinese capital was an element of domestic capital and a powerful indigenous bourgeoisie did not exist encouraged the Chinese to emerge as an economically indispensable group.

Major government measures evidently failed in eroding the economic position of the Chinese. The *Benteng* program obviously opened up opportunities for them to entrench their economic position. Although the Chinese were treated as aliens and were not eligible for inclusion in the program, in fact, most of licenses, state bank credits, government contracts and other concessions, which were distributed to business groupings on the basis of political association, were sold to the Chinese. During the period of the Old Order, the nationalist regime was also too weak to replace the Chinese economic position. Despite the development of state capitalism, the Chinese economic role continuously grew either directly or as contractors or agents for state-run enterprises[57]. They moved into the position formerly dominated by Dutch interests, and effectively captured Indonesia's economic heights. Under the New Order government, the role of Chinese capitalists has become much more essential in promoting the national economic development strategy characterized by capitalism.

Furthermore, although the existence of a large state sector has prevented the Chinese from dominating the super layer of the economy, the need of a dynamic private sector, in which the Chinese have been indispensable could not remove the charge that the Chinese dominate the economy. Within only two decades after the re-integration of Indonesia into the world economy, Chinese capitalists succeeded in modernizing the country that, in turn, gave rise to conglomerates. Indeed, the majority of large companies and business groups are owned and managed by the Chinese. Table 2.1 in the

following page, which I took from Yuri Sato's research on the development of business groups in Indonesia[58] indicates so.

Besides, it is generally known that the success of a substantial number of Chinese entrepreneurs has been achieved through patron-client relationships with those who are in the ruling elite circle. In the early years of the New Order, many of them became financiers and intermediaries by providing badly needed funds and supplies to the military leadership in return for political protection and favors[59]. Indeed, the New Order government strengthened Chinese middle class positions, in which they became the foremost pioneers in the development of the increasingly capitalist economic structure. Chinese entrepreneurs are now unquestionably the wealthiest in the archipelago.

For instance, Liem Sioe Liong is now ranked among the forty richest men in the world and runs a business empire that stretches from the west coast of the United States, across Southeast Asia and into Europe. Mohammad Hassan controls some two million hectares of forestry concession areas, which are mostly in Kalimantan, whereas Prajogo Pangestu had by 1991 accumulated some 5.5 million hectares of forestry concessions areas, which are with associated wood-processing facilities conservatively valued at some US $ 5 - 6 billion[60]. Moreover, since political vulnerability as members of unpopular minority leaves the Chinese in a 'precarious' condition constraining their ability to alter this situation, some see the danger that the Chinese might siphon the profits offshore. According to Michael Vatikiotis, "there was alarm over an independent report that as much as US $ 26 billion worth of Indonesian private capital was placed in Asian Currency Unit funds in Singapore"[61]. Consequently, the large and mainly Chinese-owned conglomerates are held up as symbols of greed and rapacity by most indigenous Indonesians. They are widely seen as

Table 2.1: Group Leaders of the 47 Largest Business Groups

Business Group	# com-pany	Gen-era-tion	Group Leader	Chinese Name	Year of Birth	Place of Birth
1Liem Sioe Liong	225	1	Soedono Salim	Liem Sioe Liong	1916	Fuqing, China
2 Astra	197	1	William Soeryadjaya	Tjia Kian Liong	1922	West Java
3 Sinar Mas	37	1	Eka Tjipta Widjaya	Oey Ek Tjong	1923	Fukien, China
4 Bimantara	63	1	Bambang Trihatmodjo	none	1953	Central Java
5 Gudang Garam	13	2	Rachman Halim	Tjoa To Hung	1947	East Java
			Surya Wonowidjoyo	Tjoa Ing Hwie	1923	Fukien, China
6 Djarum	8	1	Robert Budi Hartono	Oei Hwie Tjhong	1941	Semarang
7 Bakrie	20	2	Aburizal Bakrie	none	1946	Jakarta
			(Achmad Bakrie)	none	1916	Lampung
8 Rodamas	35	1	Hanafi	Tan Siong Kie	1916	Semarang
9 Dharmala	49	1	Soehargo Gondokusumo	Go Ka Him	1925	Fukien, China
10 Damatex	30	1		The Nien King	1931	Bandung
	30	1	Suhendro Motowidjoyo	Sik Sian Han	1931	Semarang
11 Bank Bali	22	1	Djaya Ramli	Lie Ting Tjing	1926	Puwarkarta
			Sukanta Tanudjaya	Tan Tay Kang	1925	Fukien, China
12 Arya Upaya	28	1	Kaharudin Ongko	Ong Ka Huat	1937	North Sumatra
13 Gajah Tunggal	31	1	Sjamsul Nursalim	Liem Tek Siong	1942	Lampung
14 Jaya	113	1	Ciputra	Tjie Tjien Hoan	1931	Central Sulawesi
15 Bob Hasan	45	1	Mohamad Hasan	The Kian Seng	1931	Semarang
16 Berdikari	19	1	Bustanil Arifin	none	1925	West Sumatra
17 Panin	28	1	Mu'min Ali Gunawan	Lie Moek Ming	1929	East Java
18 Mantrust	25	1	Teguh Sutantyo	Tan Kiong Liep	1918	Yogyakarta
19 Bentoel	4	1	Budhiwidjaya Kusuma	Fu Kim Mu	1924	Bojonegoro
20 ABC	17	2	Husain Djoyonegoro	Chu Kokseng	1949	Semarang
			(Chandra Djoyonegoro)	?	?	?
21 Maspion	7	1	Alim Husein	Lim Kiem Moey	1927	Fuqing, China
22 Imora	21	1	Hadi Budiman	Ang Kok Ha	1936	Jakarta
23 Gesuri	44	1	Adil Nurimba	Liem Eng Hoai	1922	Riau
24 Lippo	35	1	Mochtar Riady	Lee Mo Tie	1929	East Java
25 Humpuss	4	1	Hutomo Mandala Putra	none	1962	Central Java
26 Ometraco	16	1	Ferry Teguh Santosa	Kan Son Tjiong	1932	East Java
27 Wanandi	49	1	Sofyan Wanandi	Liem Bian Khoen	1941	West Sumatra
28 Soedarpo	32	1	Soedarpo Sastrasatomo	none	1920	North Sumatra
29 Krama Yudha	9	1	Sjarnoebi Said	none	1927	South Sumatra
30 Kalbe Farma	10	1	F. Bing Aryanto	Khouw Lip Bi	1933	Central Java
31S. Djaya Raya	21	1	Andi Tabusalla	none	1928	South Sulawesi
			Susanta Lyman	Lie An Djian	1916	Fukien, China
32 Barito Pacific	10	1	Prajogo Pangestu	Phang Dju Phin	1941	Bengkajang
33 Sampoerna	5	3	Putera Sampoerna	Liem Tien Pao	1947	Netherlands
				(L. Seeng Tee)	?	?
34 Lautan Luas	9	1	Adyansyah Masrin	Ng Kee Chun	?	?
35 Mugi	16	1	Eugene Trismitro	Tjoe Mo Tjiang	1913	North Sumatra
36 Modern	13	1	Samadikun Hartono	Ho Sioe Koen	1948	Ujung Pandang
37 Tempo	35	1	Kartini Mulyadi	?	1930	Surabaya
38 Gobel	11	2	Rachmat M. Gobel	none	1962	Jakarta
			(Thajeb M. Gobel)	none	1930	North Sulawesi
39 Teknik Umum	27	1	Eddy K. Adiwinata	none	1919	West Java
40 Kedaung	22	1	Agus Nursalim	Liem Djoe Kwang	1931	North Sumtra
41 Berca	22	1	Murdaya Widyawimarta	Po Djie Gwan	1941	East Java
42 Sucaco	11	1	Motet	Tan Yong Liong	1939	South Sulawesi
			Erwin Surya Raharjo	Lim Sin Kwang	1934	Fukien, China
43 Alas Kusuma	6	1	Suhadi	Tan Hok Liem	1926	Canton, China
44 Hutrindo	12	1	Akie Setiawan	Kho Kie Piang	1940	West Kalimantan
			Alex Korompis	Kho Teng Kwee	1924	Pontianak
45 Raya Utama	8	1	Adijanto	Tan Lim Hian	1925	Pontianak
46 Tanjung Raya	6	1	Achmad Bakrie	?	?	?
47 Kayu Lapis	2	2	Andi Sutanto	Tan Siong Gun	?	?

Source: TBN data file, Datatrust 1986. Data Consult, 1987, and other various sources.

feeding off the people and plowing their profits overseas.

Additionally, although Chinese capitalists could not translate their mighty domestic finance into class dominance, their ability to command substantial financial resources has equipped them with more power than that of other segments of the domestic bourgeoisie. The very rich tycoons exert considerable indirect influence on certain types of economic decisions, mostly on particular contracts or credit allocations through their personal and financial connections with government officials[62]. Their almost complete exclusion from Indonesian political life is, therefore, not a heavy price to pay for their prosperity. Apparently, Chinese are 'marginalized' from Indonesian society on favorable terms.

Among the indigenous, processes of segmentation are also extremely intense, especially among the Muslims. About 87 per cent of the Indonesians profess the Islamic religion, so that quantitatively makes Indonesia the biggest Islamic country in the world. But, despite a great majority of the population identifying themselves as Muslim, the Muslim community in Indonesia is far from being a homogenous group. There are so many divisions among the community, which lead them to marginalize each other. WF Wertheim pointed out that the attitude of the Muslim community in Indonesia is typically that of a minority group[63].

As a matter of fact, Muslims in Indonesia are mainly divided between the so-called *santri* and *abangan.* The former refers to devout or strict Muslims who practice Islamic principles, and the latter refers to nominal Muslims whose beliefs are a syncretic blend of Javanese traditions, Hindu-Buddhist and Islamic elements. The high degree of tolerance and syncretism among the *abangans* has been a major cause of cleavages between the two groups. During the Old Order period, while many *abangans* became supporters of the PKI most *santri*

joined Islamic parties, namely the NU, Masyumi, PSII and PERTI. The fact that the PKI found a favored position within the political system, made the Islamic parties become major supporters of the military in overthrowing the Old Order.

However, the devout Muslims are also divided by the fact that the degree of understanding of the Islamic teachings and ideology varies. Some view Islam as not merely a religion, but also a political force, so that they perceive the need to establish an Islamic state. According to Zifirdaus Adnan, "those who struggle for an Islamic state consider Islam a complete religion, in which it regulates not only private, but also social, political, even economic life. Thus, Islam is not only a religion, but also an ideology. Islam therefore, does not separate religion and the state. Muslims are obliged to carry out the duty of commanding good and preventing evils in all aspects of life"[64]. Others tend to see Islam as containing only worship and moral ethics and conceive the absence of any explicit command in the Qur'an and from the Prophet to establish an Islamic state[65]. Furthermore, from their point of view, the establishment of an Islamic state can jeopardize the unity of the nation and the stability of the country, due to the fact that many sections of the Indonesian community, including non-Muslims, oppose the idea.

Due to different interpretations, major conflicts have occurred between those who advocate an Islamic state and those who oppose it. In the 1950s, this sharp division led to the outbreak of Islamic separatist movements in West Java, Aceh, and South Sulawesi that immediately caused the collapse of the parliamentary system. Although those rebellions were put down, the Islamic political force continued to be regarded as a latent threat. Consequently, Islam has always been put under strict control and those who advocate an Islamic state have become marginalized.

While during the Sukarno period, the role of the Islamic parties

significantly declined, under the New Order they have been eroded altogether. The New Order's policy towards Islam can be viewed as primarily aimed at keeping the Muslims in check, or rather at bay. Gradually, but systematically, the existing Islamic parties were compelled to merge into one great party, the PPP, without any real decisive power. The depoliticization process was further carried out by forcing the party to replace Islam with *Pancasila* as the party's sole ideology. Thus, being perceived as a wholly unsatisfactory vehicle for Islamic interests, PPP lost all significance to the Muslim community and its share of the vote continuously declined.

Despite its declining political importance, Islam still has a potent influence on society. The decline of nominal adherence to the religion, the spread of Islam on campuses and growing Islamic intellectual influence on attitudes towards national social and economic development indicate so[66]. In the general neo-colonial atmosphere, where foreign economic interests prevail, Islam acts as a shelter. In this context, religion is perceived as a cure for social and economic ills created by the changing social and economic fabric of the country, particularly after the introduction of liberal economic reform programs in the 1980s. Many devout Muslims perceive the economic reforms to be favoring non-Muslim minorities. More specifically, economic growth was seen by Muslim intellectuals as favoring the Chinese, as they said that the policies promoting this growth were being directed by a mainly Christian economic elite[67]. Therefore, any resurgence of specifically Islamic belief is now more likely to reflect social, political, or economic frustrations.

It is true that Chinese-indigenous issues and the disagreement about the place of Islam in the national life are not as manifest as in the 1950s and 1960s, but there are some problems that might lead to a deeper split among the society. The growth of capitalist economy under the New Order leads to the

promotion of a metropolitan way of life, which unmistakably widens the gap between the wealthy and the poorer salary earners, between farmers, rural workers, and city dwellers, and so on. International and domestic investment have also deepened spatial regional development. Meanwhile most of investment in the manufacturing sector are channeled toward the larger urban centers, mostly located in Java, and those in the mining and forestry sectors are mainly focused in Sumatra and Kalimantan - regions which are naturally endowed with forest and mineral wealth - there are no significant plants in the poor, non-industrial economies of Sulawesi, Nusa Tenggara, Maluku, and Irian Jaya[68]. Briefly, the legacy of Dutch colonial socio-economic stratification, the New Order government's policies, and the global economy simultaneously have shaped the Indonesia society which has been characterized by divisive ethnic and social tensions.

C. External Factors

Changes in the global economic and strategic, political, and environmental orders have economic, political, and social implications for societies in that they inevitably influence decision-making processes in every country in the world. In other words, relations between state and society are, to a large extent, determined by interactions between state and its international milieus. Thus, political and economic marginalization, which occurs as a direct consequence of the weakening of society's bargaining power vis-à-vis a strong state, can also be analyzed by examining the changes of the international political and economic order that affect the changes in the state's political behavior in relationship with society on the one hand and interactions with international actors on the other hand. To what extent changes from the

international political system to the international political economy, from the international division of power to the international division of labor, cause or exacerbate marginalization in Indonesia is elaborated in this part.

1. World Politics

One significant .variable that underpinned the New Order government was Western support given to the regime during the Cold War era. The emergence of the New Order in 1966 which dramatically converted Indonesia from a radical leftist country into a strongly anti-Communist one eliminated fears in the West that Indonesia would be the next domino to fall into the Communist hands after Vietnam[69]. Therefore, immediately after General Suharto took power, Western countries moved quickly to endorse his leadership. Not only did they launch an international economic rescue operation, but they also agreed to establish a consortium, the IGGI, in order to help Indonesia develop its economy.

Although authoritarianism was completely incompatible with Western democratic values, following the elimination of the PKI, the West welcomed Indonesia as it joined the ranks of the non-communist developing countries. In this respect, the pouring in of foreign aid was considered necessary to maintain the favorable political attitudes of the New Order toward the West. Foreign aid was viewed as an important means to modernize the country, to bring an end to poverty and to undercut anti-capitalist revolution[70]. In other words, the re-entry of Indonesia into the Western sphere of influence to some extent strengthened the US position in the struggle against Communism in Asia. The notion of 'communist advance' which led the West to endorse the New Order was highlighted by Michael Vatikiotis that "perhaps because it was

Communists who were being killed, the conscience of the outside world was comparatively undisturbed by what must rank, in any assessment, as one of the bloodiest massacres in modern history"[71].

The notion of the communist threat, indeed, always found support from Western countries during this Cold War era, despite its severe implications for the Indonesian people. For the New Order, the notion obviously enabled the regime to repress any opposition by charging those who were anti-government as communists. Its relationship with the West allowed the regime to derive finance from foreign resources. Apparently, the Western countries were so preoccupied with Cold War issues, that national or regional conflicts had been always viewed from the global competition framework. Marshall Green, a former US Ambassador to Indonesia, 1965-1969, maintained that,

> the State Department and Embassy had agreed that future US economic assistance to Indonesia should be provided in a multilateral context through an international donor group. One compelling reason to move rapidly to form an effective donor consortium was the considerable doubt in the donor community about lasting strength of Suharto's New Order. If economic conditions in Indonesia should deteriorate even further, Sukarno might seize this as an opportunity to reassert his power[72].

Based on this notion, the IGGI from 1967 to 1991 uninterruptedly poured in massive aid to Indonesia.

By the end-1980s, when the Cold War ended, the character of the Indonesian political system was greatly altered. The political power had became far more concentrated at the apex of the political pyramid. The regime became far more authoritarian than ever before, evident in that social demands to change the structure or style of government disappeared almost altogether. While globalization of democratic values started becoming ubiquitous, expressing divergent views on such popular issues as press freedom, land distribution, labor unions and national credit structure still brands them as

enemies of the state. Apparently, global political competition in the past has indirectly contributed to the lack of political accountability and absence of effective political opposition in Indonesia which persistently exist up to the present.

2. The World-Economy

The world-economy itself is a crucial factor that also causes marginalization. There are a number of reasons why integration into the world-economy incorporates certain segments of the people on unfavorable terms. First of all, integration into the world-economy requires receptiveness to changes in the prevailing development orthodoxy. Since the end of World War II that brought independence to most Third World countries, industrialization has become the prevailing development orthodoxy in which industrialization has been associated with development[73]. This idea caused most Third World countries to consider the export of primary products and imports of manufactured goods as identical with backwardness and colonial status. The increasing demands for industrialization have, therefore, been often associated with the independence movements or nationalism. Consequently, in the accelerated industrialization process, agricultural/rural development has increasingly played a secondary role in developing the economy.

Generally, the rural sector has been treated as a supplier of cheap food and raw materials. This has been reflected in both policy and infrastructure development. The idea that underlines this policy is that depressing the domestic price of food can hold down the cost of living in urban areas, reduce pressure for wages increases, encourage exports and enable domestic industry to compete with imports[74]. Therefore, although the rural sector played an

important role in promoting economic development, capital accumulated from that sector was transferred directly into the modern sector, thereby restricting purchasing power and limiting domestic markets for manufactured goods. Such development, certainly, does not reduce the depth or incidence of poverty either in rural or urban areas.

The second reason explaining why integration into the world-economy marginalizes certain segments of the people is because incorporation into the world-economy forces countries to emphasize maximum economic growth by taking full advantage of foreign investment and technology. The fact that domestic capital and technology are not readily available in most Third World countries makes governments in those countries establish state capitalism and cooperate with foreign corporations. This kind of cooperation is especially carried out in pursuing ISI strategy. Thus, to varying degrees, alliances of state, foreign, and domestic capital are forged, thus enabling certain parties in those alliances to promote their vested-interests.

The third reason is that the international economy is characterized by capitalism, so that national economies have had to develop along those links. As capitalism is determinedly driven by the principles of efficiency and profitability, following the problem of 'too high wages' in many industrialized countries in the 1960s, there were profound changes in the world-economy that gave rise to the new international division of labor namely, the relocation of many manufacturing industries to the Third World where cheap labor and raw materials are abundantly available.

Basically, a number of Third World countries were in a position to seize the opportunities offered by these changes. However, integration into the new international division of labor requires switching industrial development strategies from ISI to EOI. Thus, although ISI, which reflects national

sentiments can reduce dependence on imported goods, the strategy evidently fosters inefficient industries which will never become internationally competitive. In contrast, EOI enables countries to gain benefits by implementing the principles of comparative advantage and allocative efficiency through developing export of manufactured goods in order to accelerate economic growth. The fact that the pursuit of an economic development strategy based on exports allows countries to accelerate economic growth has resulted in EOI being strongly supported by governments, international agencies and indigenous capital circles. It has even become a new orthodoxy encouraged by the World Bank since the 1970s on Third World countries[75]. Yet, EOI merely results in a concentration of means of production, wealth, and profits in the hands of a few people. Thus, the world-economy has also contributed to the marginalization process.

CHAPTER III

THE MARGINALIZATION PROCESS UNDER THE NEW ORDER GOVERNMENT

If we thoroughly analyze the political behavior of the ruling elite in the New Order political system, it is apparent that marginalization in Indonesia's New Order is not a temporary phenomenon. Instead, it is structural for it is embedded in the system. Its process has taken place alongside the evolution of the New Order power structure which has been through three distinct phases, namely: the period of the establishment of the basic power structure, 1966-1974; the era of the narrowing of the political base which took place from 1974 to 1982; and the period of the attainment of supreme control, 1982 - present. Thus, as long as the system continuously exists, marginalization persists. This chapter focuses on various forms of marginality which has occurred in each phase of that evolutionary process. The discussion, hence, revolves around three main issues: Who are the marginals? What makes them marginal? How obvious is their marginality?

A. 1966-1974.

Since the rise of the New Order in 1966, Indonesia has experienced a sustained and far-reaching campaign of political restructuring. Yet, it has been entirely directed toward strengthening the old political structure rather than altering the system. Its aims are twofold: first, to maintain the social order in such a way as to on the one hand enabling the ruling elite to dominate the

political scene where their economic interests can be secured, and on the other hand, to permit the people to 'participate' in the decision-making process. Secondly, it seems to facilitate the military in implementing its dual function and derive highly needed-legitimacy from the people. Thus, one main point that has always to be borne in mind in understanding the political behavior of the ruling elite in Indonesia's New Order is that political order and economic development are two sides of the same coin.

According to Adam Schwarz the New Order regime conceived order as "it was not a condition resulting from the use of force; it followed, rather, from the enforcement - however selective - of the government's rules." Hence, "however arbitrarily its minions may act, the New Order seeks to portray itself (as) of the defender of 'normality' and 'the rule of law', the umpire enforcing the ground rules for interactions between Indonesia's social forces"[1]. Briefly, the political structure ought to be built in such a way that the state can be insulated from the interests of any particular social group and capable of suppressing antagonisms based on the pluralistic character of society. However, the process of the establishment of a strong state has been carried out gradually, albeit systematically, through repression and other political methods, such as corporatism, co-optation, and patronage.

In the early years of this period, the methods of political exclusion and social marginalization against the ex-PKI members, its sympathizers, and Sukarno's supporters were launched as a part of the process of consolidation of the New Order's political power. Tens of thousands of those who had made the mistake of either joining the PKI or tagging along to benefit from its patronage were arrested and classified by their degree of involvement with the party. Many thousands ended up on Buru island, a remote prison camp in the Moluccas. Bureaucrats and military officers with Sukarnoist leanings became

political detainees. Sukarno himself became marginalized, for he was only a titular president until 1967, and then was kept under virtual house arrest until his death in 1970[2]. Furthermore, members of extended families of the political prisoners had to go through compulsory screening in order to get a certificate of non-involvement in the coup attempt/*surat tidak terlibat* issued by the local authorities, for all sorts of jobs and career moves[3].

The action to destroy the 'left' was so effective in severely barring them from active participation in political, economic, and intellectual life, which effectively narrowed the number of groups participating in the decision making process. More importantly, it bequeathed to the new government a much less conflict-ridden polity than under the guided democracy, so that militarization of all areas of civilian government could be accelerated. Thus, in 1967, when General Suharto was inaugurated as an acting president, the surviving forces were anti-Communist ones whose activation in the political scene was manipulated by the military in the struggle to win out, irrevocably, over the Old Order[4].

Economically speaking, the elimination of the major political force of the Old Order permitted the new government to reconstruct the economy by dismantling numerous government regulations of the Sukarno era. Retreating from economic nationalism and state participation, which were largely caused by economic weakness, the regime was beholden to the US-backed international agencies in particular and foreign investors in general for resourcing the economy. Meanwhile, the technocrats with the assistance of IMF and World Bank experts devised a new economic strategy to stimulate trade and production, shortly after successfully rehabilitating the economy. The result was the introduction of the PMA in 1967 and the PMDN a year later[5]. Since then on, the integration of Indonesia into the world-economy has been

accelerated.

The restoration of order and rehabilitation of the economy unquestionably enabled the New Order to find support from a broad swath of society. As major causes of economic crises and political instability created by the Old Order were successfully overcome by the New Order, all non-communist supporters of the new regime hoped for their incorporation into the new system on favorable terms. Civilian politicians and liberals, for instance, hoped for a restoration of constitutional democracy. Journalists and intellectuals included students hoped for freedom of speech, of expression and academic freedom. Muslims expected to increase their political power after the defeat of the PKI and the downfall of the Old Order. Businessmen/women were excited about the prospect of an economic resurgence. Nonetheless, only some of these groups were to see their hopes fulfilled, others were to become gradually and then deeply disillusioned.

From the outset, the New Order military-dominated government viewed the civilian political parties with profound skepticism and was anxious to ensure that they did not come to threaten its position. Hence, in dealing with the societal demands for a competitive party system, the regime developed a corporatist strategy. The core of this strategy was to channel political participation away from less controllable institutions, such as political parties, and into various state-designated representative bodies which were differentiated on a functional basis[6]. In other words, all societal demands are channeled in such a way as to strengthen the regime.

There are three main reasons explaining the development of the strategy. First of all, though the PKI had been physically eliminated, the military remained wary of the potential for mass-based political mobilization. Furthermore, corporatist forms were necessary since the already activated

'popular sector' cannot be coerced and neutralized forever. Finally, corporatism is a proper means for a military government which seeks stability and especially predictability in social relations, so that growth can take place[7]. With the development of corporatism, hence, political parties were no longer viewed as the only channel of political participation. In contrast, corporatist organizations are viewed as the principal form of linkage for the 'channeling' of societal demands to policy makers.

Shortly after the military consolidated its authority, five corporatist organizations were set up to cover labor, peasants, fishermen, youth and women, which in the past had been a source of radicalism. In further development, other organizations of particular segments of society, such as civil servants, Islamic religious leaders, teachers, students, journalists, doctors, lawyers and business people, were also built up since they were considered to have strategic significance. The main objectives of setting up these functional divisions are not only to blur class and other established social cleavages, but, more importantly, to unfasten the links between political parties and societal interests[8]. To those aims, therefore, all corporatist organizations were, then, brought together under the umbrella of Golkar, which has been the 'party' representing the New Order.

Being formed in 1964 by army leaders as a coordinating body for anti-Communist social organizations, the potential of Golkar to gain enough popular support needed to win general elections made the 'party' the most important vehicle for the New Order in institutionalizing its power base. Although the military has to 'share power' with civilian elements, the partnership with Golkar enables the military to strengthen its political legitimacy. Since 1971, Golkar has won a majority of the vote as shown in the table in the following page.

A corollary of the military domination and the electoral predominance of

Table 2.1: Election Results, 1971-1992 (% of votes cast)

	GOLKAR	PPP (Muslim)	PDI (Democrat)
1971*	62.8	27.1	10.1
1977	62.1	29.3	8.6
1982	64.2	28.0	7.9
1987	73.2	16.0	10.9
1992	68.1	17.0	14.9

Note: * 1971 figures for PPP and PDI are based on the combined votes of parties which emerged in 1972-1973 into these two groupings.
Source: Mackie and MacIntyre (1994: 12) quoting Suryadinata (1989: 137-9) and 1992 press reports.

Golkar is that political parties lost much of their influence. Through a network of conflict management, political parties were forced to stay out of the political system. However, the emasculation of the political parties was carried out gradually. Initially, the nine remaining parties other than Golkar were fused into two big parties, namely PPP, which amalgamated Muslim parties, and PDI, which represented nationalist and Christian parties, after the 1971 general election. Later on, party leadership positions were filled with government-agreed individuals. Consequently, the fusion has not only created internal tensions, but also eroded the significance of the role of political parties in the system. The government's attempts to oust Megawati Sukarnoputri, daughter of the first president, from the PDI leadership and to replace her with Suryadi, a government-agreed person, which led to violent riots in Jakarta last July indicated so.

Moreover, in order to ensure that parties would not be in the position to challenge the government's authority, the government created the so-called 'floating mass', a policy separating the populace, especially in rural areas, from political activity except at elections, and 'depoliticisation', regulations preventing the establishment of party offices in villages and small towns, where most of the population is located[9]. On the contrary, for electoral purposes, only Golkar was

able to organize at the village level[10]. Thus, while parties could no longer serve to aggregate social demands and channel them upwards, the capacity of societal groups to influence politics was also strikingly reduced.

The decline of people's capacity to influence the decision-making process caused them to undergo serious economic disruptions as the new economic policies evidently only benefited a small segment of Indonesians. The PMA, which gave a renewed guarantee against nationalization, a three-year tax holiday, freedom to repatriate profits, full authority to select management, and some exemption from import duties to foreign firms willing to invest in the country[11], inevitably made foreign capital dominate the fields of forestry, mining, and import substitution manufacture. In 1970, 40.1 per cent of foreign investment went into mining and 29.1 per cent into forestry. However, by 1973, while foreign concerns in the forestry sector decreased, those in mining rose to 92 per cent. Between 1967 and 1985, 58 per cent of investment in oil exploration was dominated by the Americans[12].

Taking advantage of incentives, a large number of Japanese manufacturing companies also invested in Indonesia. In the same period, 60 per cent of the manufacturing investment was Japanese as shown in the table on the following page. Indeed, Japanese firms were prominent in virtually all sectors which have received major foreign investments. They led the foreign entry into the textile industry from the late 1960s, and have played a key role in the establishment of basic metals and engineering industries[13]. Not surprisingly, in 1973, the Chairman of the Indonesian Government Investment Committee stated that "Japan and the US already control the Indonesian economy. The US has seized the natural resources and Japan the manufacturing industry"[14].

Although the influx of foreign investment has made the GDP grew at 6.9 per cent annually in the period of 1969-1974[15], economic growth and alleviation

Table 3.2: Major Foreign Investments in Manufacturing, 1967-1989*

Sector	Total		Major Investors** (in percentage)		
	$ million	Per cent	I	II	III
Food products	179.3	4.1	Hong Kong (28.3)	Japan (23.9)	Switzerland (14.4)
Textiles	618.9	14.3	Japan (64.0)	Multi-country (19.8)	Hong Kong (12.0)
Wood products	57.1	1.3	Hong Kong (36.4)	Korea (32.6)	Japan (20.1)
Paper products	57.2	1.3	Hong Kong (41.6)	Taiwan (17.8)	Multi-country (17.3)
Chemicals	669.9	15.4	Multi-country (35.5)	Japan (16.3)	USA (15.3)
Non-metallic minerals	510.7	11.8	Multi-country (48)	Japan (46.1)	USA (3.2)
Basic metals	1,838.7	42.3	Japan (84.5)	Belgium (13.6)	Multi-country (1.0)
Metal goods	404.6	9.3	Japan (58.7)	USA (10.9)	Germany (7.8)
Other	6.5	0.1	UK (33.8)	Japan (27.7)	Germany (18.5)
Total	4,342.7	100	Japan (60.1)	Multi-country (15.7)	Belgium (6.2)

Source: Hal Hill, "Manufacturing Industry," p. 236 quoting Bank Indonesia in Anne Booth (ed.). *The Oil Boom and After: The Indonesian Economic Policy and Performance in the Soeharto Era*. New York: Oxford University Press, 1992. *Data refer to realized foreign investment through to June 1989, and include equity and loan capital. Oil processing and LNG are excluded. **Major foreign investors, excluding the 'multi-country' group which comprises 15.7 per cent of the total, include Japan (70.5 per cent of the 'non multi-country' group), Belgium (7.3 per cent), USA (6.1 per cent), Hong Kong (6.0 per cent), Germany (2.3 per cent), Holland (2.2 per cent), Korea (1.5 per cent), Switzerland (1.1 per cent), UK (1.1 per cent), and Australia (0.9 per cent).

of economic and social deprivation were not mutually compatible objectives. Massive penetration of Japanese investment in the textile industry, for example, caused serious dislocations in the work-force. Enormously involved in import-substitution industries, capital-intensive and large firms made labor-intensive factories run by indigenous entrepreneurs suffer. Furthermore, foreign investment in manufacturing reinforced the uneven pattern of development, which was inherited from Dutch colonial policy.

Additionally, indigenous entrepreneurs hardly benefited from the renewed emphasis on the private sector. The policy makers opposed any policies of subsidy and protection for indigenous entrepreneurs, since they assumed that the infusion of foreign capital and technology would flow down to indigenous producers and stimulate their development through the market[16]. In fact, the opposite occurred. Many overseas investors came in as 100 per cent owners, though when they did take on a local partner, they tended to favor well-connected military officers or leading Chinese entrepreneurs[17].

The PMDN, which was designed to rectify the damage inflicted on domestic investors by the PMA, also largely benefited the Chinese business community. Although under the law domestic investors were given a variety of tax and import duty concessions, priority in certain sectors of investment and access to state credit, its provision applied only to new investments. Thus, it did not assist the majority of indigenous entrepreneurs who mostly did not have any access to foreign sources of capital. In contrast, the Chinese with foreign capital, penetrated into sectors which were traditionally the main preserve of the indigenous entrepreneurs, such as textiles, beverages and foodstuffs. Consequently, by 1973, only 17 per cent of state investment credit allocated under the PMDN was being directed to indigenous entrepreneurs and it was estimated that only 20 per cent of private capital invested under the law was indigenous[18].

Due to the serious economic disturbances, socio-economic tensions, especially between classes and races, became quite intense. As strikingly, the new policies had a severe impact on most people. Parallel with the movements associated with growing student discontent with military rule and the direction of economic strategies, the volatile political atmosphere inevitably exploded in the incident known as the Malari which involved not only students, intellectuals and Muslims, but also some factions within the ruling group. The demonstrations which were initially directed against the growing strength of foreign companies soon developed into riots against the increasing wealth of military bureaucrats and their Chinese business partners and the general corruption and extravagance of the government.

Although the incident obviously indicates the high degree of public unhappiness with the rising economic dominance of foreign investors and Chinese entrepreneurs, the *Malari* affair cannot be regarded as a strong

reaction which reflects the people's capacity to bargain politically. As a matter of fact, various political forces that exist within the New Order system are activated by the military for achieving its certain goals. The forces per se are actually feeble, especially due to the capacity of the military to use such political control methods as exclusion, coercion and repression. The disappearance of any serious public challenge to the government following the dismissal and removal of military personnels involved in the incident from direct troop command, arrest of some of the country's most independent figures involved in the earlier anti-Sukarno struggle, trial and sentence of many student leaders and closing down of leading newspapers clearly proved the effectiveness of the political control methods.

Moreover, as discussed before, the power of the military rulers is, to a significant degree, built on their capacity to appropriate state power and bureaucratic authority. The appropriated power is used to secure large sources of income from non-budgetary sources to finance their political survival, and to distribute economic opportunities to political clients and family members. The excessive abuse of the dual function doctrine inevitably leads to intra-regime rivalries, so that various groups within the society are manipulated in the struggle for power within the military. It is under the circumstances that the Indonesian masses experience marginalization. The people become marginal not because international capitalist forces make the state to submit to them, but because the state per se is submissive to the economic interests of the power holders.

B. 1974-1982

The period that followed the Malari incident was a watershed both in the

development of the New Order political system and the place of the Indonesian society within it for two reasons. First of all, as the incident highlighted the danger to the regime that factional splits within the top leadership entailed the risk of appeals to outside groups and politics of the street, the regime quarantined intra-elite politics from the masses. In so doing, the political engineering program in this period was mainly aimed at dampening disunity within the military as well as narrowing the political base of the regime. Consequently, not only did intra-regime rivalries disappear, but also public challenges were removed altogether. Thus, the relatively open, pluralistic phase of political life decisively changed towards one in which society-based forces were to be largely excluded and rendered almost powerless to influence state policies or the distribution of power at the top[19].

Secondly, as the incident indicated to the regime the high degree of public unhappiness with the non-existence of trickle-down effects of economic development highly emphasized economic growth, the regime tried a new approach to deal with the public restiveness - improvement of economic circumstances of many parts of the population. Although the improvement of economic circumstances did not necessarily mean that material benefits were spread evenly, it made people be less likely to protest their progressive exclusion from political participation. In other words, economic gains went some distance towards compensating people for their political losses[20]. Thus, the New Order's power structure was glaringly developed at the expense of marginalization of large parts of the population.

As student activists played a crucial role both in creating the conditions that originally gave the birth to the New Order and, subsequently, in bringing controversial political issues to the surface, they were the first to be alienated. The enactment of the Campus Normalization Law, for instance, effectively

depolitized universities, for it banned student demonstrations, muzzled the campus press, and extinguished academic freedom. It is under the law academic expulsions and penalties were used against student activists who went beyond 'the rules of the game'. Moreover, power conferred on the attorney-general's office has been widely used to ban books regarded as critical to the government[21]. Consequently, student political forces became powerless, so that by the beginning of the 1980s, they were well and truly buried.

In dealing with the *santri* community of devout Muslims, the New Order consistently launched political maneuvers in order to sharply separate the Islamic religion from politics. Although Islamic parties had been effectively undermined by putting Muslim interests under the banner of the PPP, the regime still viewed Islam as a political threat by the fact that Islam has a potent influence on society. Therefore, various political methods, included physical repression, were used to suppress the devout Muslims. In this respect, intimidation and coercion were obviously applied on voters before and during the campaign of the 1977 and 1982 elections[22]. The regime also made itself the official patronage of Islamic institutions, which at the tertiary level, most of them were government-run. By doing so, the regime could effectively control Muslims for all religious preachers licensed to preach in mosques passed through IAIN. Religious leaders mistrusted by the government were banned from preaching in mosques beyond their own domicile. The government had even adopted a program of sending religious teachers overseas to western centers of Islamic study, steering them away from traditional centers of Islamic teaching in the Middle East[23]. Furthermore, at a time when there were fears that the Khomeini revolution in Iran might give a boost to Islamic fundamentalism, a *Pancasila* indoctrination known as the P-4 was instituted to create ideological conformity

around the official state philosophy. Given the fact that the revolution led to the overthrow of Shah Iran, the President pushed in 1982-1983 to have *Pancasila* proclaimed as the sole philosophical basis of political parties and all other socio-political organizations, as well as of the state as a whole[24]. Additionally, the government made traditional Javanese beliefs one of Indonesia's officially acceptable religions. Given the majority of Indonesia's Muslims are Javanese, the policy obviously made segmentation among Muslims more intense. Thus, as the New Order successfully pushed Islam to the margins of public life, Islam increasingly declined as a political force.

Concomitant with the process of narrowing of the political base, the press, which had been nurtured by the military to rail so effectively against Sukarno in the 1960s, became subject to progressively severe censorship. On occasions, the government has resorted to banning or closing publications. After the Malari incident, for example, twelve newspapers, which six of them were leading, were closed down. Following student demonstrations in 1978, some of other leading newspapers as well as news magazines were banned from publication until their editors agreed that they would not publish news that would threaten public security[25]. Although an amendment to the 1966 Press Law in 1982 stipulated that the press should conduct itself in a 'free and responsible manner', in this context, the press is very much a partner of the government, and not an independent or autonomous institution[26]. The partnership between the government and the press were glaringly apparent as the press, rather than face interminable closure, has adapted to the restrictions largely by censoring itself. Therefore, although the New Order allowed the press to retain a measure of independence, the press was free under the terms set by the government. These terms were defined broadly, so that in practice, it was the government who had the last word in almost every social issue.

Within the military circle, those who had reservations about putting of the professional standing of the military at risk by engaging excessively strong-arm tactics on Golkar's behalf in the 1977 and 1982 elections and the excessive abuse of the dual function were alienated, for now personal loyalty to the executive was viewed as a great deal more important than the military's institutional clout[27]. In this respect, the president has appointed to key command positions men whom he could trust to pose no challenges to him, passing over more senior or capable officers[28]. As some of senior officers who later formed the so-called the Petition of Fifty group/*Kelompok Petisi Lima Puluh* strongly criticized the government for exacerbating civil-military relationships, they were blatantly placed on the margin of the New Order's political system. While some of them were imprisoned, others were prevented from travelling overseas and could not air their views in the national press. Furthermore, the regime deprived firms associated with them of their government contracts. Thus, with the disappearance of the activator of societal forces, the New Order easily removed all public challenges, included those of intellectuals and professional middle classes.

The main key factor that contributed to the effectiveness of marginalization in this period was the increase in oil revenues. In 1969/70, oil only provided 19.7 per cent of state revenue. However, the dramatic increase in international oil prices by the late 1973 boosted this proportion to 48.4 per cent in 1974/75. At the peak of the oil boom years, when a barrel of oil sold for over US $ 30, 80 per cent of export earnings and 70 per cent of government revenues came from oil[29].

To a large extent, the high international credit-worthiness enjoyed by Indonesia throughout this period also made the separation between the state and society much clearer than previously. The pouring in of massive foreign aid

enabled the government to finance the establishment of physical infrastructure and heavy industries. Nevertheless, the result of the large flow of project aid was a big jump in the magnitude of external debt. In 1976 Indonesia's external debt was US $ 10 billion and in 1982 it doubled to US $ 21.7 billion. The total debt service to gross exports ratio rose from 7.1 to 17.2 per cent during the same period[30].

The massive surge in oil earnings and to some extent the pouring in of foreign aid greatly increased power wielded by the state for two reasons. First of all, the oil bonanza raised the national income, so that the government was less dependent on its capacity to extract tax revenues from the people. Secondly, since the oil sector, as any other strategic industries, was dominated by the state, the regime had unprecedented scope to bestow patronage upon its supporters, or threaten to deny access to lucrative financial resources, contracts or licenses to its opponents or critics[31]. The oil money was, thus, not entirely devoted to the accumulation and productive investment of capital for accelerating development, but was also devoted to raising funds for directly political purposes and a variety of non-governmental interests. It is in this way state corporations and bureaucrats played a central part in building the New Order power structure, where with the political power increasingly concentrated in the hands of the President, the political system became patrimonial in character. Therefore, marginalization that took place in this period has to be understood as a direct consequence of the consolidation of power of the state and its officials and that of the emergence of major domestic corporate groups, which all had been built around the oil boom that highly increased the state involvement in the economy.

As a matter of fact, the major economic role of the state is the foundation of Indonesian economic development since the independence. Article 33 of the

1945 Constitution stipulates that (i) the economy is organized as a joint endeavor based on the family principle; (ii) branches of production vital to the state and encompass most of the people are to be controlled by the state; and (iii) land, water, and natural resources are to be controlled by the state and exploited for the welfare of the people[32]. However, nationalism and social justice principles, which were powerful legacies of the anti-colonial struggle, are often subject to be exploited by various governments, political leaders, and economic opportunists. As with previous governments, in this period economic policies precisely embodied the interests of the dominant forces in Indonesia rather than being directed toward guaranteeing the realization of equal distribution of the fruits of development among the whole of the people.

Pertamina, for instance, has hardly been engaged in actual drilling. Instead, it has acted primarily as the authority which allocated all drilling and processing concessions to foreign companies. It also became the umbrella of various domestic business groups. These groups flourished with contracts and concessions as the corporation functioned as a parastatal organization with independent ability to raise foreign loan and was involved in the development of various industrial projects, such as the basic metal sector, chemical industries and a range of other activities including paper, cement, and aircraft assembly and manufacturing. Thus, Pertamina was not only the center of enormous financial resources for initiating a massive program of investments in the industrial sector, but was also the most profitable military-run enterprise providing politico-bureaucrats with extra budgetary finance and sources of economic patronage[33]. The collapse of the corporation in the mid-1970s strikingly revealed corruption and misuse of funds on a massive scale.

Other state corporations were also run in a similar way, in which state corporations' directors could divert vast amounts of revenue from the state to

the various military or political factions, so that enabled the dominant politico-bureaucratic groups to establish private companies (see appendix 1). Due to the state-allocated monopolies, which gave access to crucial sectors of economic activity, many of political-bureaucratic power holders and their families in this period moved directly into business, particularly in the form of joint ventures. However, since they were not genuine entrepreneurs, most of them are merely shareholders in Chinese-owned corporation groups. In this respect, the Chinese functioned as *cukong* - a term used to refer to Chinese entrepreneurs who receive protection and privilege from a powerful patron in exchange for business assistance and/or a share of the profits. Consequently, joint ventures, which were basically aimed at restricting foreign investment and promoting indigenous entrepreneurship, in fact, became the institutionalization of the relationship between capital and the center of political-bureaucratic power[34]. Thus, the political control over the economy, which had provided the sources of revenues, patronage, and power, in turn, underpinned the dominance of state officials at both socio-economic and political levels.

Although the oil bonanza led such domination to the excessive concentration of wealth in the hands of a small group of people, it accelerated economic development, which was initially greased by foreign aid. The largest share of the oil windfall was allocated in public investment, so that accelerated the industrialization process and enabled much neglected service and infrastructure to be installed. More importantly, Indonesia used the oil revenues relatively well. Since more than three-fourths of 144 million Indonesians were classified as rural in 1980, the portion of the public investment went into agriculture and rural development. It was estimated that 13 percent of development spending in 1973-74 to 1977-78 went into agriculture, including irrigation; fertilizer subsidies averaged another 11 percent. Much of the

spending on physical infrastructure, which was 43 per cent of development spending, went to rural public works[35]. The results of the sound allocation of state revenues were remarkable.

During this period, Indonesia achieved a rapid pace of economic growth averaging close to 8 per cent per annum. With per capita income US $ 530, the country had moved into the ranks of what the World Bank terms 'lower middle-income countries'. Major progress was also made in reducing poverty, in which the percentage of the population below the official poverty line declined from 60 per cent in 1970 to 28.4 per cent in 1980[36]. Social indicators were also improved, especially in education, health, and family planning service. The changes in the number of pupils, teachers, and schools by level of education from 1970 to 1980 showed tremendous increase from 0.89 in 1973 to 168 in 1980. While infant mortality rates decreased from 137 to 98, life expectancy began to increase from 46.5 to 53[37]. However, the most impressive of these improvements was the beginning of an intensive food-production program, which led the country to be self-sufficiency in food, particularly rice, by the mid-1980s. The tremendous increase of rice production made the increase of per capita rice consumption from 107 kg in 1970 to at least 145 kg in 1984, so that the consumption of calorie per person increased from 1,059 in 1970/1979 to 1,224 in 1981[38].

Although the economic circumstances of most people were improved, some sections of society had not had their material circumstances changed in some appreciable way. The sudden structural changes of the economy had a negative impact on agricultural development. For example, although the green revolution brought significant increases in rice production and in earnings for those farmers able to take full benefit of the new farming techniques, poorer farmers and in particular those with little or no land of their own were either

forced into debt in their struggle to continue farming or else were forced off their land altogether. Women suffered particularly heavily as changing cultivation techniques displaced them from their traditional agricultural roles either by men or by new machinery coming into widespread use. Thus, mainly due to the high level of reliance on rice imports, rural development has become increasingly oriented towards the raising of agricultural productivity. Consequently, the agricultural intensification programs and new technology have, in many areas, seriously disrupted rural society, increased landlessness and unemployment, reduced neither the depth nor incidence of poverty and fueled the already high levels of rural-urban migration[39].

The import-substituting industrial development, which required cheap supplies of food in order to keep wages low, made capital go out of agriculture into off-farm investment. As the primary sector weakened - whereas the agriculture sector only grew 3.1 per cent, the manufacturing sector grew 11.5 per cent per year - the problems of unemployment and underemployment were still very serious for the majority of the population. From 1971 to 1980 landlessness increased from 3.2 per cent to 14.9 per cent; the work-force in the informal sector was also increased while the value added decreased and 25.6 per cent of the labor force worked less than 24 hours per week[40]. These problems in turn produced a low level of income which inevitably resulted in low purchasing power for the basic necessities of life.

The per capita daily supply of protein for domestic consumption by kind of food, for instance, increased only slowly from 44.9 grams in 1970 to 47.1 grams in 1979 and only 5.3 grams came from fish, meat, eggs, and milk. The poorest 30 per cent of the population spent 37 per cent of their budget on rice and their consumption in kilograms per capita was well below the national average of 114 kg[41]. On health conditions, the large increase of public health

centers or Puskesmas did not assure the quality of the service. The percentage and causes of mortality, in fact, increased as indicated by table 3.3. In addition, although the enrollment rates of primary school increased, the frequency of repeaters did not show much improvement: 12.3 per cent of enrollment in 1971 to 10.1 per cent in 1982. Also, there were still 27.5 million illiterate adults in 1980[42].

Table 3.3: Percentages and Causes of Mortality, 1972 and 1980

Cause of Death	1972	1980
Lower respiratory tract infection	12.0	23.5
Diarrhea	17.0	22.2
Cardio-vascular diseases	5.1	11.7
Tuberculosis	6.0	9.9
Tetanus	4.6	7.5
Nervous system diseases	5.1	5.9
Typhoid	2.1	3.9
Injuries and accidents	2.1	4.9
Compilations at pregnancy and delivery	2.2	3.0
Neo-natal condition	2.4	-
Others	41.3	8.8
Total	100.0	100.0

Note: The large percentage under 'others' in 1972 is probably due to the lack of information on the exact cause of death.
Source: Sjahrir. *Basic Needs in Indonesia: Economics, Politics, and Public Policy.* Singapore: Institute of Southeast Asian Studies, 1986, p. 65 quoted Department of Health, 1972 and 1980 Household Health Surveys.

As the government's economic 'carrot' had proved insufficient compensation for some groups in society, there had been outbreaks of violent protest. These had ranged from large-scale resistance to some aspect of state policy, through to low level localized grievances. However, given the isolation or marginalization of significant activators of societal forces, public resentment could be contained before it rose to the surface. Thus, depoliticisation of Indonesian life during this period, as well as the changes taking place more broadly within the society at large and also within the state apparatus, tilted the balance between state and society increasingly in favor of the former.

It is in this way that most of Indonesians were marginalized politically

and economically. While their material circumstances only slightly improved, their participation in politics and policy-making was much reduced. Thus, the New Order's political restructuring program in this period succeeded in putting the society at the margin of the national system. This sharp separation between the state and society in turn led the New Order regime to attain supreme power.

C. 1982-present

Generally speaking, the Indonesian political system in the 1980s, was highly characterized by tranquility and blandness. Popular participation in politics was very little in contrast to the state which became quite strong and autonomous. This means that social control, which was the main objective of the establishment of the New Order political system, was successfully achieved in the early years of this period. Yet, a world recession followed by the sharp decline of world oil prices to a large extent affected relations between the New Order regime and Indonesian society for the role of state as the major financier of the economy began to decline. Therefore, the marginalization process that took place in the last phase of the development of the New Order power structure ought to be understood by analyzing the character of the current political system which was greatly changed after the massive launching of the political engineering program throughout the 1970s.

There are some major distinct features of the Indonesian political system in this period that explain how some sections of society are marginalized within the system. First of all, the personal authority of the Executive was markedly increased after General Suharto was re-elected for a fourth term in 1983. This re-election implied that all societal forces have been successfully domesticated

and his opponents had no realistic chance of displacing him, or of compelling him to change the structure or style of governance[43]. Thus, in contrast to the preceding decade, power now became extremely concentrated at the apex of the political pyramid.

Yet, despite concentration of power, the personalistic element in the New Order's authoritarian rule is more limited than it was in the Philippines and Thailand. Mark R. Thompson maintained that "Suharto has been careful not to carry the patrimonial elements of his rule as far as Marcos did, especially after the rapidly expanding business activities of his family increasingly became a matter of public controversy and generated deep discontent in the military"[44]. In this respect, it is the technocrats that have been given much more 'power' to deregulate the economy. Thus, shortly after the oil bonanza ended, Indonesia went through a thorough market opening reform that has helped stabilize the economy with remarkable economic growth despite continued nepotism.

A direct consequence of the changes of the New Order's political character was the decline of the political and administrative power of the military, both in relation to the Executive and the bureaucracy as its competence and technical complexity of governmental activities increased. Given civilian society is in check, the Executive no longer needs to share the political limelight with the military. General Suharto even keeps ensuring the men at the top are personally loyal to him and unlikely pose any challenge to his authority. The Executive also prevents the emergence of any credible rivals from senior officers at the highest levels as retirement in Indonesia is normally set at age 55[45]. Furthermore, the military is now transformed into an instrument of the regime in order to protect non-military interests[46]. Consequently, some senior officers begin to sympathize with the view that the dual function has gone too far. Thus, although the military has been the New Order power base

from the outset, the validity of the dual function, the concept that legitimizes its role in political life, has steadily waned. In this respect, the military becomes less capable of functioning as an independent political force than it had been previously, although its relations with the Executive is increasingly strained.

Indeed, since the mid-1980s the President has trimmed down the number of cabinet ministers with military backgrounds and appointed mostly civilians to the 27 provincial governor posts. The following table shows the decline of the military's dual-function. Recent studies also showed that from a peak of 25,000 in 1967, officers seconded to dual-function positions had dropped to 13,000 in 1986 and to about 9,500 by 1992[47].

Table 3.4: Civilian Posts Filled by Military Officers

Posts Filled by the Military	1973	1995
Cabinet Ministers	34 % or 8 of 23	24 % or 10 of 42
Governors	70 % or 18 of 26	40 % or 11 of 27
Ambassadors	44.4 %	17 % or 13 of 77

Source: *Gatra*, 6 May 1995, p. 28

Another important character of the current political system was the striking philosophical uniformity of all Indonesians. In 1984, shortly after *Pancasila* was formally proclaimed as the national ideology, political parties and all other social groups were required by law to adopt the ideology as their sole guiding principle. Since then on, political debate has been overshadowed by the existence of state-sanctioned ideological hegemony. Accordingly, Indonesians must resort to self-censorship on 'sensitive' issues in order to keep well inside the limits of what is permissible[48] since all unwanted political activities are labeled anti-*Pancasila*. In forming national unity through '*Pancasila* democracy', warnings about the ever-present threats to national unity - from among others, communists, radical Muslims, and Westernized liberals - have been uninterruptedly propagandized. The implication of the adoption of

Pancasila as the sole national ideology is that any move for political change is warded off as it has been often stated by those in the ruling circle that the political choice available to Indonesia is not between authoritarianism and democracy; it is between '*Pancasila* democracy' - that is the status quo - and chaos[49].

At the society level, the enforced adoption of *Pancasila* further weakened the Islamic party, PPP, by the fact that *Pancasila* took priority over Islam as its philosophical basis. Followed by the withdrawal of NU, the biggest of Islamic organizations with 34 million members that formed PPP, from the party and a shift of support to Golkar by several prominent Muslim leaders, PPP saw its share of the votes sharply falling in the 1987 general elections (see table 3.1). As PPP became feeble and NU turned to a pressure group trading electoral contests for the complex inter-group rivalries in Indonesia's politics, the Muslims hence came to the conclusion that there was no future in being excluded from access to power.

Yet, despite considerable marginalization, the role of Islam in society has, in fact, never faded. Since the late 1980s, a revival of Islamic consciousness has been underway in Indonesia, particularly among the young. Increasingly, Islam is seen as a safe alternative to the heavily circumscribed political structure and economic and social ills created by the economic system which is considered only boosting corruption and a perceived official favoritism towards non-Muslims and the Chinese ethnic group. Islam's growing attraction is reflected in, among others, increasing attendance at mosques, mushrooming Islamic study groups on university campuses, and the wearing of *jilbab* head scarf by more women. Moreover, professionals and the middle class are increasingly seeing Islam as a religion that can provide their spiritual needs in the context of contemporary society. In other words, although the government's

efforts to emasculate Islam as a political force began to bear fruit in the late 1970s and early 1980s, the popularity of Islam as a source of social, ethical and spiritual advice cannot be removed altogether from Indonesian society.

Given rising Islamic consciousness in society, since the late 1980s, the New Order government has altered its maneuver in dealing with the Indonesian Muslim community. Being responsive to domestic Islamic pressures, the government began to give ground on other issues dear to Muslims. Restrictions on the use of *jilbab* head scarf at public schools were relaxed. More Islamic elements were introduced into the national school curriculum. More authority was also given to Islamic courts. On the diplomatic front, Indonesia formally recognized the state of Palestine, although Indonesia's foreign policy towards the Middle East and the Bosnia crisis has been strikingly based on calculations of Indonesian 'national interests' as perceived by the ruling elite rather than on Islam. The President and his family began increasingly adopting a Muslim lifestyle, including a well publicized family pilgrimage to Mecca in 1991. The government also helped establish Indonesia's first Islamic-style bank. The ruling party, Golkar, sponsored the establishment of mosques and other Islamic facilities and participated in a series of Islamic festivals and conference. More importantly, the President has strongly supported ICMI, which was set up as a sounding board for Muslim input into public policy, rather than as a mass-based political vehicle. Being founded in 1990 and headed by the Ministry for Research and Technology, BJ Habibie, this organization includes among its membership critical non-governmental Muslim leaders and long-serving cabinet members[50]. Briefly, the New Order's regime's political attitude toward Islam since the end of the 1980s has become much less hostile. Yet, the maneuver is undertaken without relaxing strict curbs on their political activity. Instead of fulfilling Muslims' political aspiration, the regimes manipulates the devout

Muslims for its own interests.

With the cooling relations between the Executive and key sections of the military's leadership, the political power base of the regime begins to shift. Since Islam has formidably potential political power, by cultivating direct links with Muslims, the military can be counterbalanced. As the devout Muslims have long been the adversity of the military, the new propinquity between the Islamic groups and the Executive inevitably weakens the military's bargaining position within the political system. However, in the new political configuration, it is glaringly apparent that Islam is merely a quasi-political power as many Islamic leaders have firmly declined to support the ICMI.

Given the cooptation of Muslims into the political system, PDI has now become more attractive to Indonesia's majority Muslim population. The increase of the party's share of votes in the 1992 general elections (see table 3.1) indicated so. Although PDI basically consists of nationalist and Christian groups in which PNI's Sukarno is the biggest, in the current political system it becomes the only political 'outlet' for society demanding an end for the abuse of power, corruption, and injustice. A corollary of the increased popularity of PDI is a sudden change of government's political attitude toward the party.

Indeed, the regime has hardened its attitude toward PDI, particularly since the early 1990s, as Megawati Sukarnoputri, the eldest daughter of the Indonesian first president, was elected as the chairman of the party. Through various political methods including coercion, the government harshly put the party further to the margin of the political system. Initially, the regime alleged that some members of the party had past links to the banned PKI by the fact that the most dominant element of the party is PNI[51]. Later, the government coercively deposed Megawati and installed a government-favored person as the new chairman. Although the government has so far successfully prevented

the PDI's leading role in channeling societal demands, political measures and maneuvers taken precisely showed signs of the weakening of the New Order in maintaining the status quo.

The last feature of New Order's rule was political legitimacy which it drew from its economic performance. The inauguration of President Suharto as 'father of development' indicated so. The New Order's economic policies are pragmatic and rational in comparison with those of the Old Order. The reintegration of Indonesia into the world economy, for instance, enabled the regime to redevelop the national economy aimed at maintaining economic stability and economic growth. The wise use of the oil windfall accelerated the industrialization process without ignoring agricultural/rural development, so that converted Indonesia from the largest rice-importing country in the world to virtual food self-sufficiency, particularly in rice, by the mid-1980s. A massive family planning program has checked the growth of a population which once threatened to spiral out of control. In two decades, Indonesia's population growth decreased from 2.4 percent per year in the 1970s to 1.8 per cent in 1980s and 1.6 per cent in the early 1990s[52]. Results of policies in overcoming national economic crises caused by government revenues decline as world oil prices collapsed in the 1980s were even more remarkable. The implementation of SAP promoted by the World Bank and IMF that included, among others, devaluation, significant reductions in government expenditures and liberalization of the economy led the country to re-experience impressive economic growth. As Indonesia moved toward a more export-oriented, internationally competitive economy, the economy again grew by above 7 per cent per year by 1989 after slowing down to 4.3 per cent annually between 1982 and 1988.

More importantly, SAPs were implemented with a minimum of

disturbance to society. According to the World Bank[53], during the adjustment period the Indonesian government made substantial progress in reducing poverty, mainly due to the government's past programs and policies to support the agricultural sector and rural areas and substantial investments in social infrastructure such as primary schools and health facilities. The incidence of poverty declined from 21.6 per cent in 1984 to 17.4 per cent in 1987. In absolute terms, the number of Indonesians living in poverty declined from 35 million in 1984 to 30 million in 1987. Furthermore, in contrast to other countries where forced economic change rained hardship on the less advantaged in society, in Indonesia forced austerity did not drastically cut into public spending, so that per capita income increased by 15.7 per cent over the three year period.

Additionally, social indicators significantly improved as well. Life expectancy in 1995, for example, was 63 in contrast to that in 1975 which was only 52, while mortality rates per 1,000 births fell dramatically from 114 to 53 during the same period. People per doctor decreased from 16,430 in 1975 to 6,786 in 1995. Concomitant with the increase of average real food expenditures, the proportion of population having to devote more than 75 per cent of total expenditures for food fell both in rural and urban areas. In this case, daily calorie supply even increased 150 per cent from 81 per cent in 1965 to 120 per cent in 1988. Meanwhile adult literacy rates increased at an exceptional rate, to 88 per cent in 1995 from 54 per cent in 1975 and to 75 per cent from 45 per cent respectively for male and female, the percentage of secondary enrollment ratio of men increased from 25 to 47 and that of women increased from 15 to 39 during the same period[54]. Briefly, since the New Order took power, the standard of living of the average Indonesian has stunningly improved.

Indeed, Indonesia's record of poverty alleviation is regarded as an international success story. The country's progress in substantially reducing poverty has been praised by the World Bank, so that confirmed its apparent status as a member of the unique East Asian club of countries which have maintained good distributional outcomes in the presence of high growth. In this respect, the Bank maintained that of sixteen developing countries extensively studied for *The World Development Report 1990*, Indonesia has the highest annual average reduction in the incidence of poverty during the past two decades (1970-1987)[55]. In a similar vein, a country study on adjustment and equity in Indonesia prepared for the OECD also highlighted the progress[56].

Yet, despite the improvement of human development at the macro level, marginalization persistently occurs. As a matter of fact, the number of poor is still high. While the World Bank's 1990 report maintained that 30 million Indonesians lived in absolute poverty, the UNDP through its report, *Human Development Report 1992*, noted 71 million Indonesians were below the poverty line in which 56.3 million of them lived in rural areas[57]. It seems that these different reports are caused by the non-existence of consensus concerning the appropriate definition of poverty in Indonesia as elsewhere. Besides, the incidence of poverty is obviously sensitive to the measure used. However, data on poverty line estimates provided by BPS have gained prominence as the official figures, and it is these data which are referred to by the President and cabinet ministers. But, according to Anne Booth, the most commonly used poverty lines in Indonesia are lower than many other countries[58]. Indeed, Jeffrey A. Winter asserts that

> The definition of a poor person used by the Indonesian government's Central Statistics Bureau in 1994 is someone with an income of Rp. 20,000 ($ 9.30) per month in rural areas and Rp. 28,000 ($13) per month in cities, this works out to Rp. 933 ($ 0.43) per day, which is barely enough to buy the cheapest brand of instant noodles three times a day. Leaving aside nutrition, this daily income

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The depth of real poverty incidence is exacerbated by the lack of opportunities of many Indonesians to actively participate within the new economic environment. The level of unemployment is still high. Of 2.3 million people entering the job market each year, only 300,000 find full-time employment, and about 52.2 per cent or 7.33 million of those unemployed are between the ages 15 and 25. The level of underemployment is also high. The 1990 population census showed that around 38.7 per cent of people work less than 35 hours a week, while around 34.3 per cent work more than 45 hours a week. The percentage of people working less than 35 hours a week is higher in rural areas (45.1 per cent) than in urban areas (21.1 per cent). Long working hours in urban areas are reflected in lower income per hour. People tend to work more than normal working hours in order to obtain an adequate income. On the other hand, working hours in rural areas are generally short because most households work in traditional agriculture, and own and cultivate very small holdings[60]. Thus, in actual fact many Indonesians hardly get benefits from the current economic development.

Although the preamble of the 1945 Constitution stipulates that the government was set up to promote public welfare, to enhance the nation's intellectual life, and to establish a just and prosperous society[61], equity has rarely been given a great deal of empirical content. Instead, it has become a

political slogan, which has been uninterruptedly enunciated in numerous presidential and other official statements as well as in each Pelita. The creation of a highly centralized political system with an implication that a similar process has also occurred in economic affairs and the pattern of the Indonesian economic development per se, which extremely emphasizes economic growth, strikingly resulted in widening inequality among regions, class, and ethnic groups.

Bappenas and other Jakarta-based ministries are given the responsibility for setting regional spending priorities. During the oil boom period, the process of economic policy-making was increasingly centralized, because more money became available to bureaucrats at the capital. From the perspective of resource-rich provinces such as Aceh (natural gas), Riau (oil), East Kalimantan (oil and timber), and Irian Jaya (copper, gold, and timber) the current system is hence viewed as being merely aimed at improving living standards at the center by exploiting their natural resources[62].

Under the new economic circumstances, where oil and commodity exports are no longer seen as the engine of the economic growth in contrast to the manufacturing sector, this spatial economic development becomes worsened. The resurgence of Indonesian manufacturing since the late 1980s has mostly benefited western provinces of Java, Bali, and Sumatra. Because infrastructure are much better in these provinces than the eastern provinces, they have received the bulk of new private investment. The following table shows the big portion of investment which has been highly concentrated on Java rather than other parts of Indonesia.

The increasing polarization is also reflected in wealth inequalities. For instance, while Liem Sioe Liong's Salim Group accounts for roughly 5 per cent of Indonesia's GDP, over 50 per cent of agricultural labor force share less than

Table 3.5: Spatial Patterns of Industrialization, 1985

	Percentage of National Total *				
	Output			Major Industries** (Percentage of Provincial Output)	
Province	L+M+excl. Oil/LNG	L+M+S incl. Oil/LNG	Employment L+M+S	I	II
SUMATRA	14.4			311 : 22	355 : 16
incl. oil/LNG		24.4	12.0	353/4 : 52	311 : 11
Aceh	1.8			351 : 46	352 : 29
incl. LNG		11.1	1.0	353/4 : 84	351 : 17
North Sumatra	5.1			311 : 32	371 : 17
incl. oil		3.4	4.9	311 : 31	371 : 17
Riau	2.0			381 : 28	331 : 27
incl. oil		4.3	1.2	353/4 : 65	381 : 10
South Sumatra	2.4			351 : 46	355 : 17
incl. oil		3.5	2.0	353/4 : 50	351 : 23
Lampung	1.6	1.0	1.3	311 : 49	355 : 26
JAVA	74.4			321 : 14	314 : 12
incl. Oil		53.5	78.2	321 : 9	353/4 : 8
Jakarta	18.7	12.1	12.2	384 : 17	352 : 14
West Java	26.9	16.8	21.0	371 : 21	321 : 20
Central Java/Yogyakarta	7.6			321 : 32	311 : 15
incl. Oil		11.1	21.63	353/4 : 46	321 : 17
East Java	21.1	13.5	23.4	314 : 37	311 : 17
KALIMANTAN	7.5			331 : 59	351 : 21
incl. oil/LNG		19.5	4.9	353/4 : 68	331 : 19
West Kalimantan	1.8	1.1	1.0	331 : 71	355 : 27
South Kalimantan	1.9	1.1	1.2	331 : 52	355 : 43
East Kalimantan	3.1			351 : 49	331 : 47
incl. oil/LNG		16.8	1.9	353/4 : 84	351 : 8
SULAWESI	2.5	1.8	2.5	384 : 51	311 : 23
EASTERN INDONESIA	1.2	0.9	2.4	331 : 66	311 : 11
INDONESIA	100	100	100		
incl. oil/LNG				353/4 : 28	314 : 12
excl. oil/LNG				314 : 17	321 : 12

Source: Hal Hill. "Manufacturing Industry", p. 240-241, quoting BPS, unpublished data. In Anne Booth (ed.). *The Oil Boom and After: Indonesian Economic Policy and Performance in the Suharto Era.* New York: University Press, 1992.

* Output refers to value added; L+M to large and Medium firms (those employing at least 20 workers); L+M+S to large, medium, and small firms (those employing at least five workers)

** Data refer to percentage of provincial value added among large and medium firms. **Industries are as defined in table 3.6.**

20 per cent of the national income[63]. By the early 1990s, Indonesian labor paid just over US $ 1 per day boosted the rapid growth of footwear manufactures. The value of training shoe exports to the US market alone was worth US $ 270 million during that period[64]. Thus, since Indonesia moved from an ISI-based economy toward the market-oriented economy by the mid-1980s, disparities between the haves and the have-nots have markedly become much wider than ever before. With the emergence of the private sector, which has steadily replaced the state as the engine of the economic growth, some sections of the population are not only marginalized within the national system, but also

become peripheral within the global economy. Most Indonesians were severely affected by the change of the national and global economies as the economic pie, which once provided the government with resources to finance poverty alleviation programs and supply public services, shrank. Many of the poor missed out and even the better-off have often been left vulnerable to unemployment and downsizing to cutback in health and welfare services.

In contrast, being attracted by abundant cheap raw material and ample low-wage labor as well as political stability, foreign investment has massively poured into the country. In 1987, foreign investment approvals were US $ 1,457.1 million. The approval of such investment strikingly rose to US $ 4,408.3 million and US $ 4,718.8 million respectively in 1988 and 1989[65]. However, unlike the development in the early 1970s, the role of foreign capital in the country's economy was relatively less significant. Whereas the super layer of the economy remains in the hands of the state, most of the industrial sector is dominated by domestic capitalists (see table 3.6 in the following page and table 2.1). Together with foreign investors, the conglomerates have led Indonesia to experience outstanding economic growth and to become a near newly-industrialized country. They have also created 'first worldness' enclaves, forming 14 million of 190.7 million Indonesians into a new middle class[66], and brought them 'modern' life patterns and consumerism associated with the global capitalist economy. Thus, since the mid-1980s they have increasingly become integrated into the global political economic order on favorable terms.

Additionally, the widening income disparities are also obvious among races. Rapid expansion of business activities are mostly launched by local Chinese. As discussed earlier and shown in table 2.1 business owned and run by Chinese-ethnic families play a very significant part in all private economic activities. Initially emerging as a dependent entrepreneurial class which was

Table 3.6: Ownership by Major Industry Group, 1985*
(percentage of each industry's output)

	Industry	Private	Government**	Foreign
311	Food products	53.9	36.7	9.4
312		53.8	18.6	27.6
313	Beverages	39.2	34.2	26.6
314	Tobacco	95.9	0.8	3.3
321	Textiles	68.1	7.1	24.8
322	Garments	98.0	0.2	1.8
323	Leather products	99.1	0.9	0
324	Footwear	86.9	0.2	12.9
331	Wood products	83.3	3.7	13.0
332	Furniture	91.8	1.8	6.4
341	Paper products	50.2	10.1	39.7
342	Printing and publishing	64.4	24.3	11.3
351	Basic chemicals	14.6	72.6	12.8
352	Other chemicals	54.6	7.8	38.6
353/4	Oil and gas processing	0	100	0
355	Rubber products	47.5	34.9	17.6
345	Plastics	91.2	0.3	8.5
361	Pottery and china	76.3	0.5	23.2
362	Glass products	88.5	3.6	7.9
363	Cement	24.8	61.5	13.7
364	Structural clay products	91.4	1.5	7.1
369	Other non-metallic minerals	95.9	4.1	0
37	Basic metals	6.0	89.1	4.9
381	Metal products	50.8	22.4	26.8
382	Non-electric machinery	31.9	31.0	37.1
383	Electrical equipment	59.9	13.8	26.3
384	Transport equipment	59.0	13.8	27.2
385	Prof. Equipment	77.0	0	23.0
39	Miscellaneous	88.3	0.2	11.5
Total				
excl. oil and gas		59.1	24.2	16.7
incl. oil and gas		43.8	43.8	12.4

Source: Hal Hill. "Manufacturing Industry," p. 232 quoting BPS, unpublished data. In Anne Booth, ed. *The Oil Boom and After: Indonesian Economic Policy and Performance in the Suharto Era*. New York: Oxford University Press, 1992.
*Refers to firms with a workforce of at least 20 employees.
** Includes all firms with a government equity.

created particularly by patronage linkages with the power center and generally by political stability, economic policies, and oil boom, the Chinese became the biggest players in dynamizing the economy as the state's role as the financier of the economy steadily declines. Within the new economic environment, hence, most Chinese are strikingly more prosperous than the indigenous. Consequently, deep social jealousy among indigenous people frequently turns racial tensions to mob violence with the implication that Chinese economic dominance is referred to as a major cause of inequality.

A corollary of the Chinese disproportionate grip on the economy is

limited economic deregulation. Despite privatization, the state still plays a big role in the economy as clearly indicated by the existence of Pertamina, Bulog, the state electricity company, PLN, the telephone company, the national flag carrier, the state road agency and other leading companies controlled by some of the ministries. Yet, the state's dominance of the super layer of the economy cannot be merely perceived as an attempt to neutralize the negative impact of economic liberalization on society.

In fact, state capitalism has continuously provided patronage funds within the new economic environment. It has been also used massively to promote business interests of the families of power holders. More importantly, it has been an important means to remove the idea of political succession by the fact that the President now places his children in the vanguard of the resurgence of an indigenous Indonesian enterpreneurship to redress imbalances created by Chinese' economic dominance[67]. Thus, politically speaking, the New Order revives nationalist sentiments to maintain the political status quo.

A direct consequence of the negative impact of the current political and economic system on many sections of society was the bubbling of public unhappiness to the surface, particularly after the globalization of the idea of parliamentary democracy as the post-Cold War paved the way to the worldwide emergence of human rights issues. Incidents of violent unrest concerning land disputes, low labor wages, racial and religious tensions or environmental degradation have frequently occurred. But, instead of grappling with the underlying economic issues, the government blamed old scapegoats. Any sign of social or political unrest is labeled communist agitation, despite the fact that the party was entirely smashed.

Although parliamentary democratic values are now ubiquitous and result

in international pressures for democracy, in fact, significant foreign pressures from industrialized countries have merely been stronger when economic prospects of a country appear poor. The ambivalence of the West's attitude was considerably conspicuous as many authoritarian regimes made good use of the Cold War. In the case of Indonesia, low-profile foreign policy had served Indonesia's interests well for it was indicated by the massive flow of much-needed foreign aid from the West. The results of such attitudes in foreign policy were remarkable economic achievements and, on the other hand, the decline of democratic life in the country.

Indonesia has firmly rejected conditions to development assistance. In 1974, Minister of Economic Affairs Widjojo Nitisastro declared that assistance could never be tied to whatsoever precondition and Indonesia would never tolerate any interference in its internal affairs[68]. Given the fact that Indonesia is staunchly anti-Communist, the West through the IGGI uninterruptedly until 1991 funneled the aid. In that year, the IGGI budget amounted to US $ 4.75 billion[69].

However, beginning in the late 1980s, with the end of the Cold War and the domestic political situation well in check, Indonesia began to perform a more active foreign policy. On the regional stage, it played a key role in getting the warring factions in Cambodia to agree to UN-sponsored elections in 1993 and hosted a series of workshops in 1991-1993 aimed at settling the conflicting claims to the Spratly Islands in South China Sea and at finding a political solution to the Muslim insurgency plaguing southern Philippines. More importantly, on the international level, in 1992 Indonesia was elected to lead the NAM for a three year period. Together with other member countries of ASEAN, Indonesia have helped establish the APEC forum as an influential trade grouping. Indonesia was also chosen to hold APEC's rotating chairmanship for 1994[70]. Briefly, Indonesian foreign policy in the 1990s is more

ambitious.

There are two reasons explaining Indonesia's active role in international arena. First, Indonesia was economically strong enough to begin playing a responsible role in world affairs as stated by President Suharto[71]. Undoubtedly, this political attitude bolstered the New Order's prestige at home as it conspicuously contrasted with the bombastic Old Order's foreign policy that only created economic and political chaos. Secondly, various issues concerning human rights increasingly become the main topic of international diplomacy. Indonesia's handling on labor, environmental problems, political freedom demands, and other human rights issues has been recently criticized by industrialized nations. The United States, for example, warned that Jakarta had to improve labor conditions if it wished to preserve access to the GSP program of reduced tariffs for exports to United States[72]. Low-profile foreign policy was, hence, viewed as ineffective to counter criticism. Indonesia's decision of declining any further aid from the Netherlands and dissolving the IGGI as the consortium chaired by the Dutch government evidently indicated so.

As a matter of fact, it is the NAM that paved a way for Indonesia to promote its national interests. The theme promoted by Indonesia at the conference held in Jakarta in 1992 was that if the NAM was to have a future, a dialogue between the industrialized countries and the developing countries needed to be constructed on the basis of a spirit of interdependence rather than the confrontational style adopted in the 1970s and early 1980s. Another notable theme was the explicit rejection of attempts by donor countries to link aid with human rights issues[73]. The agreement achieved by the 108 nations, not only moved the NAM into a decidedly phase, but more importantly also restored Indonesia's reputation in the eyes of a number of Western countries and made its political attitude more assertive. The assertiveness of Indonesian

foreign policy is obviously asserted by Indonesia's request to the World Bank to establish a new consortium, the CGI, to include all members of the IGGI except the Netherlands. Despite the fact that Indonesia could contemplate the Dutch because their aid to Indonesia was insignificant - 1.9 per cent of the IGGI total of US $ 4.75 billion, US $ 91 million in 1991[74], the firmness of this political attitude obviously shows that Indonesia determinedly refuses to adopt liberal-democratic political reforms.

Although the principle of 'economic growth is a means, human development is the end' is generally known, what has been taking place in Indonesia's New Order of accelerating economic development is voiceless growth - growth in the economy has not been accompanied by the extension of democracy or empowerment. Political repression and authoritarian character of the government have silenced alternative voices and stifled demands for greater social and economic participation. Being exacerbated by the working of capitalist economic relations as the world economic order changed, government policies push those who are poor and powerless to the margin of the system. Thus, it is glaringly apparent that economic development in Indonesia is merely an instrument to achieve state's goals, because decisions being made are not based on the interests of the public, but on those of powerful people.

CHAPTER IV

REACTIONS TO MARGINALIZATION

The massive political restructuring program carried out by the New Order regime throughout the 1970s and 1980s successfully enabled the regime substantially to control Indonesian society. Through various political methods, repression and economic compensations resulted in remarkable economic growth through which the regime rendered the society apolitical. Nevertheless, despite considerable repression, Indonesian society is not that passive. Since the late 1980s, mass protests have erupted frequently. Today, those unhappy with some aspects of state policy take to the streets to be heard. Being exacerbated by the lack of political avenues as political parties, the press, and other social organizations are put under strict government control, societal demands are frequently expressed in violent unrest.

This chapter aims to discuss how some sections of society react to their marginality. In the elaboration, the discussion will deal with three main questions: What conditions cause the current societal demands to the government? What forces work behind such reactions? And to what extent can the government tolerate the reactions?

As the marginalization process in Indonesia not only takes place economically, but also politically, the discussion is divided into two parts. The first part highlights reactions to political marginalization and the second one elaborates protests over economic marginalization. Although the discussion separately examines reactions to political exclusion from those to unequal

economic development, it is important to understand the phenomenon: Those economically marginalized are also politically excluded from the current national system, while those who are politically marginalized are not necessarily economically deprived.

A. Reactions to Authoritarianism

It is undeniable that the New Order's strong rule and pragmatic economic policies have constituted a more effective and successful government than the one the regime replaced. Indonesia is no longer an impoverished, agrarian nation of thirty years ago. The incidence of poverty has dropped dramatically and education, literacy and health indicators are way up. The nation's industrial sector has grown rapidly over the past fifteen years and so too has the importance of the private sector relative to the state. Manufactured goods now make up a fifth of GDP and more than 80 per cent of total non-oil exports[1].

Economic development also has made profound changes in society. More Indonesians now live in cities, where information about the world outside Indonesia's borders is more readily available. Advances in communication technology have hastened this process and to some extent carried it into rural areas. A middle class of professionals and white-collar employees is also in formation.

However, while society and the economy are being transformed, Indonesia's political system seems stuck. The nation's political edifice, which by the early 1990s had become precariously dependent on one man, is beginning to show its weakness. Nowadays, more and more educated Indonesians see the personal power of the President as outdated. The negative aspects of his rule, namely the general unresponsiveness of the political process, the weakness of

the legislative and judicial branches of government, the prevalence of corruption, and the very unpredictability of the President's eventual departure from power, are no longer seen as the unavoidable and necessary costs of economic progress. Instead, they are considered a hindrance to Indonesia's development as a modern nation. Briefly, authoritarianism of the regime is now perceived as anachronistic.

There are two major interlinked factors that cause the currents of change in Indonesia. The first agent of change is international lending institutions - the IMF and the World Bank - whose influence on the Indonesian economy became obvious after the fall of the oil price in the beginning of the 1980s. Throughout the 1970s, oil played an extremely important role in the process of industrialization, the emergence of major domestic corporate groups, and the consolidation of the power of the state and its officials. Due to the heady success of oil exports, during this period the New Order state could afford top-down policies and buy off criticism in such a way that society was successfully put under tight state control. Yet, the tremendous dependence on the oil sector eventually had serious repercussions as the international oil market contracted dramatically.

In 1981-82, Indonesia earned close to US $ 19 billion from its petroleum exports. This dropped to US $ 14.7 billion in 1982/83, US $ 12.4 billion in 1985/86, and hit US $ 6.9 billion in 1986/87[2]. As the sudden drop of revenue from the export of oil unavoidably brought on a crisis in economic management, IMF and the World Bank, proposed economic reform. Urging Indonesia to rethink its economic strategy on the principles of comparative advantage and allocative efficiency, the Bank recommended a shift from dependence on petroleum exports to the development of non-oil revenue, with its implication that Indonesia's dominant state sector had to hand over economic responsibility

to the private sector[3]. This means that the policy shift required dramatic changes not only in the economy, but also in the legal and administrative structures. According to Katherine Fierlbeck, while it was increasingly apparent that Indonesia's strategy of ISI was too expensive to maintain and was impeding the ability of the domestic manufacturing industry to become sufficiently efficient and competitive to participate in the international market place, two major obstacles hampered economic deregulation.

First of all, the very political-economic elite upon whom such a strategy depended was the very group whose interests were firmly entrenched in industries that profited handsomely from a policy of ISI. Secondly, Indonesia's national development has, from its Independence, been irreducibly linked with an ideological commitment to state involvement in the economy as stipulated in Article 33 of the 1945 Constitution[3]. Despite such structural and ideological impediments to deregulation, however, the economic squeeze began to erode public support for state intervention in the economy. Given the pressing need for revenues, in the mid-1980s Indonesia began to implement the international lending institutions' recommendation by gradually liberalizing the economy as the bureaucracy governing the production and export of non-oil goods remained corrupt and overregulated.

The second and more important catalytic force was the business class whose emergence resulted from the rapid growth of the private sector. The largest Indonesian business groups had been built on the basis of government favors, albeit with an aim to build large, diversified companies that could compete domestically with foreign enterprises. However, since the private sector started to increasingly play a major role in boosting the economy, many of the domestic capitalists have turned to become efficient producers. In this respect, they made the transition to a professional management style and built

autonomous capitalist enterprises. Whatever their origins, the Salim, Astra, Dharmala and Bakrie groups are examples of groups developing strong business capabilities. It is these groups that strongly supported the principle of deregulation and forced the government to eliminate the high degree of bureaucratic corruption undermining Indonesia's international trade strategy.

To a very large extent, economic deregulation was successful in overcoming the crisis. As Indonesia became more integrated into the new international economic environment after the launching of a series of economic reforms, the economy regained its remarkable growth. Moreover, the industrialization process was accelerated so that it led Indonesia to become a newly industrialized country.

Yet, despite the successes, economic reform is considered insufficient to make the private sector the main engine of the current economic growth by the fact that state bureaucrats still have significant authority to determine access to many important state facilities. Indeed, many business groups, such as Bimantara, Humpuss, Bob Hasan, Barito Pacific groups, continue to prosper because of political connections. Directly linked to the president, these groups are having a corrosive effect on the country. In this respect, these groups either turn management over to foreign experts, have monopolies in production or distribution, or otherwise act merely as brokers on projects requiring government approval. Through a combination of kickbacks and closed government tenders, they have secured a number of valuable concessions - television stations, toll roads, telecommunications contracts, oil tanker leases, etc.[5]. Therefore, according to Arief Budiman, this kind of situation can be hindered if there is more openness in politics, more freedom of the press, and more democracy[6]. Not surprisingly, shortly after the New Order government adopted policies of economic liberalization in the mid-1980s, many Indonesians

began to raise calls for corresponding deregulation in the political sphere. Thus, just as in the Soviet experience where *perestroika* led to *glasnot*, trade liberalization and financial deregulation in Indonesia stimulated calls for social openness and political accountability.

To a certain degree, government response to societal pressures seems to be positive. In dealing with the demands on the abolition or at least a drastic reduction of the dual function of the military, the New Order regime has steadily civilianized government structures. By the late 1980s, provincial governorships, heads of state enterprises and even choice of ambassadorships were going to civilian instead of military appointees. Moreover, as already discussed in the preceding chapter, the military's power base was increasingly eroded, so that the New Order became civilian in its outlook. Simultaneously, the government also promoted 'openness' by easing restrictions on the press, particularly through reduction of censorship. This means that it would cease its long-established practices of banning publications and of telephoning journalists to 'advise' that stories be abandoned or altered[7]. With greater autonomy, journalists, thus, began to cover political and economic life in a manner unseen in Indonesia for decades. Yet, although it is true that calls for a more participatory and accountable political system are on the rise, demands that eventually lead Indonesia to experience these political developments are apparently dissociated from values of liberal democracy.

As a matter of fact, Western constitutional democracy is based on open and competitive elections in order to result in a choice of representatives who are accountable to the people. Representatives are most effectively influenced through the formation of interest groups. However, mechanisms for ensuring representatives' accountability to and communication with the masses tend to be deficient for they result in a widespread sense of alienation[8]. In Indonesia,

while several sections of the middle class become increasingly concerned with lack of choice in political representation, freedom of speech, and association, the masses are more concerned with economic security and subsistence. Indeed, though well ahead of 1960s level, income and educational levels are still low, political institutions are weak, and an understanding of how democracy works is thinly spread. Moreover, more than 70 per cent of the population live in rural areas. Therefore, given that only 14 million of Indonesia's 190 million population considered as middle class, it is hard to anticipate the costs and benefits of a more open and competitive process. Indeed, David Potter as quoted by Katherine Fierlbeck maintained that if the organization of the industrial 'working class' is an important variable in challenging the arbitrary nature of governmental decision-making, then Indonesia's ability to exploit this political possibility will be limited for some time[9].

Another reason was the character of the Indonesian middle class whose emergence was a result of the increasing growth of the private sector's role in the economy. Historically and theoretically, the evolution of democracy depends upon the increasing power of the dominant capitalist class. In Indonesia, the middle class is unique by the fact that the backbone of this class is not an entrepreneurial group as in the case of many countries. Indonesian capitalist class is mostly dominated by the Chinese ethnic group which has been politically weak and socially harassed. Although Chinese capitalists have been essential to extra-budgetary revenues for the military and politico-bureaucrats and to economic growth, they could not have translated their dominance of domestic finance and production into class domination for political and social divisions between Chinese and indigenous have been considerably deep. Under the New Order, the legitimacy of the regime was threatened if it allowed itself to be portrayed as the handmaiden of Chinese business interests. Due to

Chinese' 'exclusion' from political life, other intermediate groups such as professionals, civil servants and military officers, and academics are often referred to as middle class[10]. In other words, what constitutes the elite in other countries is viewed as the middle class in Indonesia. Consequently, the evolution of democracy in this country will likely be quite constrained because any open political activism by the Chinese would be met by suspicion and distrust on the part of many Indonesians.

To a large extent, indigenous entrepreneurs have had reservations about demands for a more democratic space. Small businessmen/women, merchants, and petty traders are skeptical about the weakening of Indonesia's strong state, for they feel vulnerable in the face of an onslaught of big business, both domestic and foreign. They suspect that a more democratic polity would be prone to manipulation by big business. Similar views are also held by larger indigenous businessmen/women. Many believe that they can only catch up with the leading Chinese businessmen/women if they have government help. Meanwhile, many medium-sized indigenous entrepreneurs who do not have strong enough contacts to benefit from political favoritism are more warmly disposed to economic liberalization and democratization. However, in general they still believe that business lobby tends to conservatism[11]. Thus, while the middle classes have been able to vocalize more demands for change in recent years, the demands that have been made and which have been addressed by the government have remained squarely within the economic realm.

In addition, the role of the middle class as the catalyst for political change does not fully work. While political power was concentrating in the central regime, at the same time economic growth was generating new groups or enlarging older ones whose interests and outlooks were bound to clash with those of public authority. Rapidly growing private sectors attracted highly

trained professionals in unprecedented numbers, educated abroad or at home in new or expanded university programs. Most of them are 'apolitical', in a sense that they are more involved in their technical works which are paid handsomely by the state or private business using their services[12]. Thus, they tend to avoid conflict with the state. Not surprisingly, not all professionals as well as entrepreneurs see dangers in the state.

The expansion of these intermediate groups and the proliferation of intellectuals have augmented, however, the numbers of potential critics whose economic independence and political sophistication paved them a way for opposition. The point is not that new middle classes are necessarily antagonistic to the state. According to Daniel S. Lev, "such antagonism is more likely to come articulately from the social middle class than anywhere; in effect, this kind of social structural change increases the odds of opposition"[13].

Finally, it is very obvious that a key factor in the fostering of the so-called 'openness' was intense elite rivalry. As discussed earlier, for most indigenous Indonesians, state bureaucracy is still the primary route to power and wealth. Since the Dutch formally retreated from Indonesia, bureaucratic posts have been persistently occupied by officials who attempt to concentrate the political power in their hands in order to secure their economic interests. As bureaucracy serves state officials' interests rather than national ones, the sharp separation between state and society is considered necessary, so that societal criticism to the government can be removed. Through the creation of the bureaucratic authoritarian model, state officials succeeded not only in accumulating political power, but also capital.

Despite the establishment of a strong state, the state is, in fact, not a cohesive entity. Immediately after the Indonesian society was depoliticised, the state no longer needed to share political power with various forces which once

underpinned it. Given the fact of the creation of an apolitical society, economic interests more easily pursued, efforts to achieve economic power through the concentration of political power unquestionably entails political marginalization of some groups within the ruling elite. Consequently, as the elite is divided, rival factions activate ideologies, institutions and organizations originally intended to facilitate state control to mobilize political support[14]. It is in this condition that the people react to political marginalization. In other words, protests on political discontent derive from the ruling elite per se rather than from the ruled mass.

Being driven by certain factions of the military, disaffected with regime policies and their loss of status, wealth and power to the President's family and civilian associates, these military groupings launch political maneuvers to counterbalance the government. In so doing, they have sought to secure support from, and legitimacy among, groups previously excluded from the centers of political authority. Thus, as in the late 1960s, the military now attempts to re-activate the depoliticised societal forces.

One major factor that forges these forces with the military is the belief that the extraordinary political power of the President is an obstacle to Indonesia's political development and that this development, therefore, can only begin when the President is out of office. However, they are not, by and large, animated by hatred or even dislike of the President. They give him credit for stabilizing Indonesia's political life and for overseeing an extended period of economic development. In this respect, according Adam Schwarz, "they simply feel that the President's paternalistic style of authoritarian rule is no longer appropriate. They think there is something seriously wrong with a political system that permits one man to stay in power for 30 years"[15].

Indeed, patrimonialism, a product of ancient cultural traditions, merely entrenches rampant corruption with profound implications for Indonesia's

economic and political future. Unquestionably, corruption is profitable for the few and expensive for the many. Thus, as the political power of President Suharto is considered the root of socio-economic problems, the politics of succession began to dominate political debate by the early 1990s and then slowly to influence the policy. In fact, succession has become the focus of attention to such as extent, that all other issues of political significance in this latter period of the New Order - demands for democratization, widening economic inequalities at all levels, and the future role of the military - are subsumed as part of the same problem[16].

The issues of political succession have been long vocalized by senior officers who disagree with the excessive political power of the executive. In 1980, around fifty public figures, among them senior retired officers, drew up a petition expressing their concern at the President's use of *Pancasila* as an instrument of coercion against political contenders[17]. They objected to the President's implicit suggestion that criticism of the executive could be construed as anti-*Pancasila* and therefore disloyalty to the state. Although the criticism articulated by this group was mild and politely asserted, the open opposition undoubtedly separated the senior officers from the mainstream of the military. By the late 1980s, the military, however, once again criticized the President for making his political power unchallenged at the cost of marginalization of forces formed the main pillar of the New Order. They dissented with the new definition of the military's role as protector the interests of the state rather than the nation. Indeed, under the new definition loyalty to the state could only be questioned if the New Order either exceeded constitutional bounds, or became unpopular and a threat to social and economic stability, whereas in fact the President's careful definition of his legitimacy in strict legal terms and the enduring stability of the

country ensured that neither of these conditions really materialized[18]. However, in contrast to the methods used in 1980 to oppose the powerful executive, the military, now, prefers confrontation to political articulation.

For instance, in the 1987 general elections, the military lent tacit support to PDI that resulted in spectacular gains for the party (see table 3.1). In the parliament, DPR, the military faction played up land disputes to highlight the business activities of the President's family. In a remarkable development, security forces apparently gave tacit permission for a number of sizable demonstrations to take place in Jakarta. The focus of protesters varied - for example, opposition to state-sponsored lottery and more localized grievances on land-ownership - but all had a clear anti-government flavor. As a result, for the first time in decades, protesters were able to congregate in front of the presidential palace. Moreover, the military had become less hostile towards the press and actively encouraged the press to write about selective social and economic issues. Consequently, criticism to the authoritarian rule and calls for political change expressed by key figures in the military establishment were publicly known[19].

A corollary of the military's tacit support was that the picture of political impotency among the middle class began to wane. Since late 1988, student protests calling for an end to the President's rule have frequently erupted and boldly reported in the press. But, rather than criticize the government directly, the students adopt issues that have to do with the welfare of the people as their cause. By establishing solidarity with workers and peasants, the students were involved in protests over the expulsion of local poor people from their land. They also supported wide-scale campaigns over just compensation to peasants who lost their land as a result of the development of various government and private projects. Other issues such as rises in electricity prices and public

transportation fares which would have impacted heavily on the poorer sections of society have also been the target of student protests[20]. Since most other movements, particularly those of workers and peasants, in Indonesia were unable to consolidate actions due to the lack of organizing capability, student's protests with tacit military backing were successful in forming public opinion and political bargaining. Thus, not only were these demonstrations permitted, in some cases they seem to have been instrumental in generating concessions by the government. The disciplinary measures against officials seen to have acted in an arbitrary or harsh manner in land disputes clearly indicated so.

Among the devout Muslim community reactions to the marginalization process have been varied. In the 1970s and 1980s, radicalism strongly characterized their struggles for they were unhappy with the New Order's deep-seated suspicion of Islamic aspiration. As the President identified his leadership with the banner of Islam, Muslims opposed a state-sponsored lottery for it was plainly an un-Islamic activity. Although the business was controlled by the President's family, the fact that the strong opposition abruptly turned to protests involving thousands of students, the President canceled the business. More blatantly, the NU leader launched political maneuvers aimed at expressing discontent among Muslims as the government made Islam as a show of political force rather than a commitment to social change. In order to highlight the ambivalence of government's attitude towards Islam, he visited Israel and called for the establishment of diplomatic relations with Tel Aviv. In 1991, he formed the so-called Democracy Forum/*Forum Demokrasi*, an association of 45 leading Indonesian figures which included lawyers, journalists, Muslim intellectuals, scientists, academics, and a Catholic priest. Being set up as an organization to begin a dialogue on democracy in Indonesia, the Forum was seen by its founder as a way to offer both Muslims and non-Muslims an alternative to ICMI's view of

Islam and politics in Indonesia. Hence, it is obvious that the move was construed as an attempt to undermine the President's patronage of the Muslim mainstream[21].

With the tacit military support, civilian politicians also strived to participate more fully in government decision-making. In order to so, the PDI has been trying to broaden its popular base by making itself more attractive to Indonesia's majority Muslim population. In fact, the NU makes that possible. The fact that the NU is not a political organization, but a Muslim mass movement enabled the organization to freely offer its support to different political parties. Not surprisingly, one of NU officials is on the party's central executive board, prominent Muslim intellectual Mochtar Buchori is the new head of the party's research and development department, and there are now NU members in every PDI chapter[22]. Thus, through the new alliance where NU members could have a decisive voice in the coming general election, PDI could strikingly increase its seats in the Parliament.

However, although the military was, to some extent, successful in strengthening its influence in society, the moves tended to highlight its political weakness *vis-à-vis* the President, rather than its strength, because political power did not rest with society, but with the President. In the case of controlling the press, for instance, members of the President's family bought into the media. Michael Vatikiotis mentioned that all three of the commercial television stations, and a major publishing group, *Media Indonesia*, were controlled by them. One of his children was chairman of the Association of Private Radio Stations[23]. Therefore, it is not easy for the military to use a freer press in order to regain political influence. The abrupt shut down of three prominent news weeklies in 1994 clearly indicated so, for the bans heralded a new era of press

crack-downs which wiped out many of the previous advances in press freedom. They further signaled new restrictions on political activism across a wide range of social institutions.

Accordingly, the legal and political institutions underpinning the authoritarian rule rest unchanged. Under the Presidential Decree 11/1963, also called the Subversive Act, the government has the utmost authority to imprison or sentence to death individuals who are deemed to subvert the political process. However, in so doing, it is the government, not the judiciary, which determines what is to count as subversive[24] . Not surprisingly, arrests of political activists continue to take place. Being strengthened by the revival of the notion of communist threat, the government can easily do so. Harsh political measures taken against PDI and its supporters last summer clearly indicated how a powerful executive is able to prevent public criticism of the government.

In overcoming the political implications of economic reform, soon after his re-election as president for a sixth term in 1992, the President 'reshuffled' the cabinet. The most striking change of the 'reshuffle' was the expanded influence of the so-called 'technologue camp', and conversely, the apparent waning of the influence of the technocrats with the departure of the last of the stalwart liberal economists. In fact, the President was uncomfortable with the technocrats' pressures to push through new reforms that obviously conflicted with the New Order's nurturing of an all-powerful, quasi-feudal state. By putting the technologue camp, whose main policy was state-led advanced technology, in the new cabinet, the state not only could restrain the process of deregulation, but, more importantly, also could restrict the debureaucratization process that led to the growing pressures for political change.

Additionally, the military has, in fact, faced a political dilemma. The military's major problem under the New Order has been the need to maintain the

relevance of its political role. During the early years of the New Order, with memories of how close the country had supposedly come to Communist rule still fresh, no one questioned the dual function. The military provided the key players in politics, organized the groups they led, and when election time came, they got out the vote. By the late 1980s, with the fact that the President was strong enough to command popular support, the military's esteem and power were at a low ebb. Thus, in order to preserve its precious unity and political position, the military had no choice but to toe the line.

Regarding society, it is quite apparent that it can hardly form an open, public pressure group with clearly stated objectives for several reasons. First of all, the parameters of acceptable political activity in Indonesia are narrowly drawn, so that it is difficult to deal with such matters as democratization and political succession. Secondly, the opponents are divided and therefore weak. Indeed, there are disagreements among themselves on what sorts of political changes Indonesia needs. Consequently, they cannot arrange and carry out coordinated political actions. Finally, none of the societal forces has the real capability to put effective pressures on the President to step down, unless they get support from the military. In fact, since the military strives to preserve its dual function, a democratic future in Indonesia will much depend upon how much political influence the military will retain in post-General Suharto administrations. Therefore, political reactions launched by middle class groups merely result in quasi-democratization.

With various constraints to achieve democratic life, it is important to point out that the historical experiences of Europe and North America with democratization are very unlikely to be reproduced in the post-colonial societies of the Third World. In Indonesia, where the intricacy of political and economic matters have persistently caused serious socio-economic and political

problems, changes in the political or economic edifice are inevitably almost always carried out at the expense of marginalization of certain sections of society. In fact, economic deregulation has severely affected people at the grass-root level. Mass protests over economic deprivation obviously indicate so.

B. Reactions to Unequal Economic Development

Economic strategy in Indonesia's New Order has pursued three sets of objectives over the past 30 years: the maintenance of economic stability, economic growth, and achievement of a wider distribution in the benefits of development. Nonetheless, since national economic development was carried out within the international capitalist framework, for most of the time, government's primary concern has been with economic stability and growth. Only after the anti-government riots, Malari, in 1974 followed by the oil boom, did the government reassess its development strategy. Being boosted by an oil bonanza, economic development was then aimed at both pursuing rapid economic growth and promoting social development. The launching of school and health clinic building programs and improvements in rural and regional infrastructures are some examples of such development. However, as real prices of oil sharply declined and discouraged the state to continue financing the economy, inequality issues reappeared.

With the contraction of government's revenues, the choice favored by the technocrats was continuing down the path of export-led industrialization, utilizing its comparative advantages of plentiful labor and abundant natural resources, acknowledging a leading role for the private sector, and relying on the market to determine how capital is to be allocated. Thus, since the mid-

1980s, Indonesia has developed labor-intensive, export-oriented industries, particularly textile, garment and footwear, which are the symbols of incipient NIC status in Asia. All of these industries have grown rapidly and are among the brightest successes of Indonesia's industrialization process. By the early 1990s, the share of those manufactures in Indonesia's total exports was 45 per cent. It is expected to rise 65 per cent by the year 2000. Furthermore, the non-oil manufacturing sector has also raised its share of the GDP in which it is expected to account 23 per cent in 2000 and up to 33 per cent in 2010 compared to the current 16 per cent[25].

Yet, despite its successes, economic deregulation is a mixed blessing. The new development policy has focused on wealth production rather than wealth distribution, production for export rather than for the needs of local production, and extraction of natural resources rather than environmental protection. In fact, the government has pursued policies that served the elite at the expense of the poor and neglected the politically disconnected. As a result, while structural adjustment programs and economic deregulation promoted by the World Bank and IMF successfully overcame the economic problems faced by the government, they have undoubtedly had considerable negative impact on people at the grass-roots level.

As the government could no longer finance top-down development approaches as much as previously, NGOs started to play a significant role in mobilizing active popular participation in development. In this respect, their activities were not only directed towards improving the social and material conditions of the economically and socially disadvantaged, but also empowering less advantaged groups to deal with government agencies and other interests on more equal terms. Shortly, they served to strengthen civil society *vis-à-vis* the state.

The significance of NGOs' role in promoting human development was recognized by the government. In 1983, President Suharto called for 'the assistance and participation of the whole Indonesian people'. He admitted that it had become an apparent development could no longer be borne by the state sector alone[26]. Furthermore, it was also mentioned that while in the fifth Pelita (1989-1994) the government was responsible for 60-80 per cent of the development program with community participation being estimated at 20-40 per cent, in the current Pelita (1994-1999) these figures are reversed, with the community is responsible for 60-80 per cent of development program[27]. Thus, since economic development has been the centerpiece of the New Order administration, the government has opened the door to NGOs in order to enable the goals of equity to be realized. LP3ES, involved in education and social economic research, LSP, in community development, mainly urban, WALHI, in social and environment, YIS, in community health and development, and LBH, in legal aid are a few examples of NGOs which flourished in the 1980s.

However, translating the bottom-up strategy into operational terms has proved highly difficult to carry out within a political system with a top-down bureaucracy. As the existence of the New Order has been mainly based on the state's domination over society, almost all NGOs have highly emphasized their non-political character. The term 'non-government' was not even used to avoid the appearance of confrontation with the government[28]. Indonesian NGOs has been commonly referred to as self-reliant community institutions/*Lembaga Swadaya Masyarakat* (LSM) or institutions for developing self-reliance/*Lembaga Pengembangan Swadaya Masyarakat* (LPSM). Moreover, legal space for Indonesian NGOs has been highly limited, so that they have been unable to fully promote active participation of the community in development.

In 1985, the Parliament passed the ORMAS Law, *Undang-undang*

Organisasi Kemasyarakatan/Law on Social Organizations, that has seriously undermined the autonomy of LSM/LPSMs. Under the law, Indonesian NGOs were required to write the five principles of national ideology, *Pancasila*, into their organizations' statement of objectives as the sole foundation guiding their activities. The law also provided technical guidance by the appropriate government department and general guidance through the Department of Home Affairs structure. The law further gave the government authority to disband organizations whose activities are considered detrimental to the values of social harmony and national unity enshrined in *Pancasila*[29]. Furthermore, in 1990, the government circulated new instructions to provincial and district authorities. Through the instructions the government acknowledged the role of LSM/LPSMs in assisting people's participation and self-reliance, and determined their status as partners of the government in achieving the goals of equity. According to the 1990 instructions,

> The rights of LSM/LPSMs are (i) to implement programs in the interest of the community, nation, and state; (ii) to run their affairs in accordance with their own rules and organization, and (iii) to co-operate with third parties both within and outside Indonesia relevant to their field of activities, avoiding connections which could weaken the interests of the state. Their obligations are (i) to practice and safeguard *Pancasila* and the 1945 Constitution; (ii) to preserve national unity; (iii) to not undertake political activities or practices which would confuse their role with that of social-political organizations, and (iv) to report their presence to government authorities appropriate to their level of operation[30].

Another factor that also eroded the significant role of LSM/LPSMs in promoting human development was funding matters. According to Philip Eldridge, it was estimated that most of the large LSM/LPSMs depended on foreign sources for 70-80 per cent of their finance[31]. Indeed, organizational autonomy could to some extent be protected by building up a diversity of funding sources from foreign agencies such as Ford, Asia Foundation, USAID, OXFAM, CIDA, NOVIB, CEBEMO, and Swiss Development Corporation. It was access to foreign funding that increased Indonesian NGOs' freedom of action

and bargaining power with the government. But, since the early 1990s the issue of foreign funding has become a source of tension within the NGO community. This was illustrated in 1992, when the government aimed a potentially very damaging blow at the NGOs collectively by banning all aid from the Dutch government and Dutch NGOs. While the ban severely affected those LSM/LPSMs who received substantial funds from Dutch sources, it forced other LSM/LPSMs to rethink their approach. Thus, it is apparent that Indonesian NGOs are too feeble to provide an effective vehicle to promote societal demands, for the government has extraordinary power to counter-attack any coalition of foreign donors and Indonesian NGOs seeking to exert leverage against it by means of aid[32].

As corollary of massive government pressures on NGOs is that the LSM/LPSMs lost their vision and sense of mission to pioneer alternative models of development and to build an opposing movement to represent the disadvantaged groups. Their programs were hardly different from the official programs they once criticized. Consequently, they increasingly became agencies implementing government programs. Their failure to develop any effective strategies for change, especially among workers and peasants whose role in the current achievement of tremendous economic growth is significant, clearly indicates so.

As Indonesian businesses have struggled to cut costs and compete in international markets, workers have paid with deteriorating working conditions and stagnant wages. Before January 1, 1993, the minimum daily wage in Jakarta, for instance, was Rp. 2,500 (US $ 1.1), while salaries given to professional and managerial staff are 40 to 200 times higher than wages received by ordinary workers[33]. The huge disparity in the wage level inevitably has triggered labor tensions. Unsurprisingly, since Indonesia accelerated the

development of export-oriented factories, strikes and demonstrations by factory workers have become increasingly frequent as shown in the following table.

Table 4.1: Number of Strikes 1988-1993

Year	Number	Workers involved	Hours lost
1988	39	7,545	68,213
1989	19	4,245	27,454
1990	61	31,234	316,590
1991	130	64,474	534,610
1992	197	98,764	1,044,519
1993	169	97,807	857,845

Source: Business Monitor International Ltd. *Indonesia 1995 - 1997: Annual Report on Government, Economy, the Business Environment and Industry, with Forecasts through End 1997*, p. 86 quoted Indonesian Government/US Embassy Jakarta.

Labor agitation is also conspicuous as student activists allied with workers to directly challenge the SPSI's monopoly as a labor union sponsored by the government by establishing new labor organizations. Of those organizations, SBMSK formed in 1990 and SBSI formed in 1992, are the most successful independent trade unions in attracting recruits. It is these organizations that have played a substantial part in recent labor organizing, although they are not recognized by the government. As they do not have a legitimate role to play within the existing framework of state-capital-labor relations, their relationship with official state institutions is strikingly uneasy. Some state officials have even accused them of being instigators of worker unrest and disrupters of the harmony cherished in the concept of *Pancasila* industrial relations[34]. Yet, despite the pressures, they continue shaping current workers' struggles for higher wages and better working conditions.

From the government's point of view, keeping the labor wages low is not only crucial to generate foreign exchange, but also to keep its people employed by the fact that the level of unemployment and underemployment is high. However, despite this state of affairs, labor costs are, in fact, only 7 to 8

per cent of the production costs of the average factories[35]. Some of other costs are unnecessary. Business Monitor International Ltd. reported that bribery in doing business in Indonesia accounts for 10 to 30 per cent[36]. Apparently, it is red tape and under-the-table payments which are still a standard part of doing business in Indonesia that make far larger portions of benefits flow to the hands of elites. Indeed, Indonesian labor lacks protection. The current rules on industrial relations, for example, allow employers to pay only 75 per cent of the minimum wage in cash. Workers are told that the rest is made up in the form of transport, laid on for them to and from work, and free meals[37]. Furthermore, neither does the law enacted in 1969 have effective sanctions for non-compliance and unwieldy procedures. Under the law, employers who fail to pay their workers the minimum wage level could be jailed for up to three months, or required to pay a fine of Rp. 100,000[38] (US $ 45.65). Additionally, there is also a problem of shortages of labor inspectors, so that inspectors are only capable of monitoring labor conditions in larger and more visible firms. Given the fact that labor inspectors, charged with ensuring compliance with the international agreements to which Indonesia subscribes, get low pay, it is hardly surprising that factory owners frequently buy them off with bribes[39]. Consequently, although Indonesia has fairly strict labor legislation and subscribes to several international agreements on labor issues, employers are unlikely to find such legislation enforced.

Labor's bargaining position is further weakened by the fact that labor is considered capable of creating political instability, for in the past they had been a source of radicalism. Thus, in order to remove labor militancy, trade unions were persuaded by the government to join the SPSI. Thus, although the SPSI was established as the sole vehicle of workers' representation, the organization has long been perceived by the workers as being a tool of state control. The

ineffectiveness of central and enterprise unions established under the umbrella of SPSI in enforcing basic aspects of the labor law evidently indicated so. Not surprisingly, SPSI has failed to gain international recognition as a legitimate trade union[40].

In response to the strong reactions of labor and foreign pressures which have criticized Indonesia's non-compliance with international labor standards and practices, the minimum wage level was gradually raised (the overall figures of daily minimum wage is shown in table 4.2). Nevertheless, although the increases make the wage rates in Indonesia higher than those in China and Vietnam, they are lower than in other neighboring Asian economies.

Table 4.2: Daily Minimum Wage in Rupiah

Province	Before April 1, 1995	April 1, 1995	Percentage of Change
1. Aceh	3,150	3,500	11
2. Riau	3,100	4,150	34
3. Jambi	3,000	3,300	10
4. West Sumatra	2,500	3,250	30
5. South Sumatra	3,000	3,500	17
6. Lampung	3,000	3,500	17
7. Jakarta	3,800	4,600	21
8. West Java	3,800	4,600	21
9. Yogyakarta	2,200	2,850	30
10. Bali	3,300	3,900	18
11. W. Nusa Tenggara	2,350	2,950	26
12. South Kalimantan	3,000	3,500	17
13. West Kalimantan	3,000	3,500	17
14. East Kalimantan	3,250	4,200	29
15. South Sulawesi	2,300	3,100	35
16. Central Sulawesi	2,300	2,800	22
17. Southeast Sulawesi	2,800	3,350	20
18. Maluku	3,100	3,800	23
19 East Timor	3,000	3,800	27

Note: The minimum wage levels for eight other provinces have not been set yet. They are North Sumatra, Bengkulu, Central Java, East Java, East Nusa Tenggara, Irian Jaya, Central Kalimantan and North Sulawesi. The new minimum wage in Batam, a special industrial zone, has also not been announced.
Source: *The Jakarta Post*. Januari 3, 1995 quoted Ministry of Manpower.

According to Chris Manning, around the 1990s, Jakarta minimum wages in US dollar terms were approximately one-half of those in Manila, one-third to one-

quarter of minimum wages in Bangkok and substantially below an average laborer's wage in Malaysia[41]. Indeed, the new minimum daily wage is barely enough to keep an individual above subsistence level, because while subsidies for essential products such as kerosene and food were removed, the Rupiah has also depreciated by 5 per cent each year in order to keep the country's exports competitive[42]. Thus, despite the hikes, living standards are still slipping among the poorest workers.

While the increases of minimum daily wages have certainly been aimed at placating workers, the issue of allowing greater room for independent trade unions has been dismissed. Indeed, the Indonesian government has followed three sets of policies to direct and control the labor movement. First, it has discouraged any opposition to the SPSI by making the requirements for the registration of independent unions extremely difficult to fulfill and undermining attempts by independent unions to establish themselves. Second, national and regional leadership positions in the SPSI have been tightly controlled. Thirdly, enterprise union leaders are closely vetted by security authorities and until very recently could be appointed only with the approval of company managers[43]. Thus, although it is unlikely to harshly crack down on the rise of working class action under international criticism, in fact, other repressive methods have been undertaken. In many instances, strike leaders and union organizers have been denied wage increases or promotions and some have been fired outright or detained by the police. Furthermore, the military has also taken an active role in quelling strikes[44]. Therefore, given the fact that the workforce in Indonesia is largely unskilled, poorly educated and growing rapidly, for most workers, the risks of union activity will remain a significant discouragement to agitating for better protection.

Another concern of new radical Indonesian NGOs is land disputes. Land

has become potential source of unrest since capitalist development put pressures on some groups of people at the bottom level both in urban and rural areas. In cities, consumerism and the spreading of modern lifestyle have encouraged the mushrooming of property businesses, so that pushed the urban poor to the outskirts of cities. Villagers, especially on Java, routinely find the land that their people have farmed for generations being taken over for housing and resort development backed by the wealthy elites. Briefly, both urban and rural people suffer loss and disruption as a result of the resumption of land by state authorities for public or semi-private purposes. Indeed, Indonesia's economic boom, in the classic fashion, has increased the degree of land speculation. Consequently, respect for legal title declined and incidence of land-grabbing increased. Not surprisingly, when Indonesia's National Committee on Human Rights was formed in the late 1994, it was besieged with complaints about unresolved land disputes from all corners of the country. Additionally, problems related to land tenure and labor relations made up fully 75 per cent of the grievances addressed to parliament[45].

In rural areas, farmers with students' support protested development projects, particularly water projects, as they had evidently a disequalizing effect. Between 1971 and 1992, protests against such projects were widespread across the country, occurring in 16 of 27 provinces and involved 83 per cent of small farmers[46]. As water projects involved the construction of large dams, dikes, weirs and reservoirs; the dredging of rivers and streams; and the digging of drainage canals and irrigation networks, many villagers experienced material damage in the form of lost income due to the flooding of land, crops, and orchards. Yet, in many instances, which formed 80 per cent of grievances, farmers got inadequate compensation for damaged property, expropriated land, and resettlement expenses[47].

Actually, water projects mostly funded by foreign or international agents are prevalent in the Third World because of their importance to a variety of such industries as hydro-electric dams for industry, irrigation for agriculture, and reservoirs for fishing and tourism. Due to its importance, water projects development in Indonesia has been massive, so that ranked Indonesia as the top dam-building country in Southeast Asia[48]. However, it is also prevalent in Indonesia as in any other Third World country that projects which are carried out in a global-structural context are those that enhance the elite's power rather than to benefit the whole society. Thus, while costs are imposed on non-elites, benefits accrue to elites.

Protests against unfairness created by the current economic system which strongly emphasizes growth are also striking among other groups of people at the bottom level. In the second half of 1995 alone, for example, there were nine incidents of mob violence which were mostly caused by religious, and racial tensions. In summer 1996, political unrest in Jakarta initially caused by the increasing political tensions between the government and PDI involved many urban poor which used the incident to express their grievances[49]. Their involvement made the riot the worst street violence in the last two decades. Thus, although land disputes, religious and racial tensions and outright rebellions are nothing new in Indonesia; now, incidents of social unrest have reached a level that puts the power holders to the test.

Indeed, these days, public restiveness stems from economic issues. Most of problems have been fueled by rapid economic growth and an attendant rise in aspirations. Though many Indonesians have benefited from development, many others have not for development policies fail to address the deprivation of the rural and urban poor. For example, unemployment is high, particularly among the high-school graduates whose expectations exceed the available

opportunities. Each year over two million new job-seekers appear on the labor market where, despite economic growth, only 300,000 find full-time employment. About 52.2 per cent or 7.33 million of those unemployed are between the ages 15 and 25. The majority of people still work in traditional jobs in the informal sector. The 1990s population census showed that only 36.4 per cent of people worked in wage jobs or the formal sector, while around 63.6 per cent were employed in the traditional and informal sectors, where their productivity is low[50].

The government has striven to overcome the serious implications of economic deregulation. In the 1990s, at least two major measures has been taken to funnel money from the rich to the poor. The first measure launched in 1990 was an appeal to private companies to sell off a quarter of their equity to cooperatives. In order to do so, the loans will be paid off from dividend earnings[51]. There are three main reasons which motivated this measure. First of all, economic deregulation has resulted in the fact that the rich are getting richer much faster than the poor are growing less poor. Secondly, most of the richest are ethnic Chinese while nearly all the poorest are native Indonesians. The potential for unrest is, thus, magnified by racial tensions. Finally, cooperatives in Indonesia are enshrined along with the private and state sectors as the three main pillars of the economy. Another measure taken to trickle down the fruits of the economic development was launched in 1994 through the so-called IDT program, the Presidential Instructions Program for Less-Developed Villages. The aim of the program is to decrease the number of Indonesians living below the poverty line from the current 15 per cent, according to the BPS report, to 6 per cent by the end of General Suharto's current sixth presidential term in 1998[52].

However, neither of these measures bears fruits for the deprived. In the

case of sharing equity to cooperatives, while it does provide for share sales to rural cooperatives that have little or no contact with the private sector, it does not touch the 47 per cent of workforce that has no job or works in the informal sector. Moreover, because the vast majority of the nation's 32,000 cooperatives are in the red and would have to borrow money to buy shares, it would increase their debt, not their wealth[53].

The IDT program also has insignificant results for the poor for several reasons. Given the continuing suspicion that grass-roots development workers have a hidden agenda to politicise the masses, NGOs recruited to help villages considered to be the most impoverished only have a limited role in program implementation. Also corruption and inefficiency persistently also disturb the implementation of the program. In several areas, IDT funds are even being used to eradicate traditional culture and support child labor[54]. Moreover, the launching of the program is apparently aimed at cementing the President's legacy as the man who brought prosperity to the nation. Nowadays, the growing clamor over domination of the economy by conglomerates is perceived as threatening to erode this legacy. Daniel Dhakidae, director of the Society for Political and Economic Studies, maintained that "IDT is the best weapon to counter the impression that development only favors the Chinese conglomerates, the Suharto family and the cronies"[55]. In addition, the anti-poverty campaign also aims to assuage foreign donor disturbed by the skewed distribution of wealth that has occurred during Indonesia's recent burst of economic growth. Not surprisingly, the response from donors has been encouraging. The program has won pledges of US $ 100 million from the World Bank, US $ 200 million from Japan's Overseas Economic Cooperation Fund, US $ 80 million from the Asian Development Bank, and US $ 1 million from the United Nations Development Program[56]. Therefore, it is apparent that policies to

overcome economic deprivation problems faced by people at the bottom level are political rather than economic. Unsurprisingly, inequalities persistently exist.

Lack of opportunities to participate actively in the new economic system together with the yawning wealth disparities and pressures on land caused by industrialization not only cause sharp social discord, but, more importantly, also altered people to become radical. Today, local grievances frequently turn to violence and spread rapidly. It is within this condition that racial and religious issues mostly derived from anti-Chinese and anti-non-Muslim sentiments, which once could be successfully handled in the 1970s and 1980s, now reach their highest level. This renders Indonesian society more unmanageable than previously. However, in all such cases the government has been able to rely on the military to contain and suppress any unrest. A vital element in the military's continued support for the New Order has been its vested interest in the status quo: key sections of the military have enjoyed wide-ranging political influence and very substantial economic rewards.

CHAPTER V

CONCLUSION

This study departs from an assumption that in countries where authoritarian rule prevails, marginalization takes place as the ruling elite forms a strong state at the expense of excluding various elements of civil society from the existing political economic order. The aim of establishing the state's domination over society is to maintain a social order in such a way that it can secure economic interests of the political power holders. Thus, given that relations between state and society become tilted towards the state, the bargaining position of society *vis-à-vis* the state weakens. It is in such a relationship that numbers of people experience marginality, because decisions made are not based on the public interest, but on that of powerful people.

Two main alternative paths of capitalist development chosen by authoritarian regimes obviously indicate how the state's behavior in its interactions with external actors has profound implications on society. In pursuing the strategy of state-led industrialization, authoritarian regimes effectively centralize economic and political power in the hands of a single dominant elite which has little motivation to disperse this power more widely within the society. Due to the centralization of such power, bureaucratic corruption, nepotism, and favoritism become rampant. Therefore, the establishment of state capitalism merely benefits the political power holders and those who have direct connections with them.

As a nation is increasingly geared to export-oriented industrialization, it is the domestic capitalist class and transnational capitalists who become the

main beneficiaries of economic development. Although in pursuing the EOI strategy both host countries and the transnational corporations have an interest in limiting government activity in the economy, the strategy does not promote human development. In this respect, while the corporations advocate some form of democracy as a way of opening up the markets of the exclusionary authoritarian regimes to foreign goods and services and the host countries ought to hand over economic responsibility to the private sector due to their inability to handle the growing economic crises of the 1980s, the implementation of the principles of comparative advantage and allocative efficiency weakens labor's bargaining position and worsens the precarious condition of a large part of people in the country.

This case study illustrates how various groups in Indonesian society are marginalized from the New Order political system and international political economic order. As was pointed out in chapter two, the New Order regime, which was entirely dominated by the military, unconstitutionally emerged in the national political stage. Due to the lack of political legitimacy, the regime made economic development a political vehicle to derive popular support by reintegrating the country into the world economy. By doing so, while the influx of foreign capital, technology, and skill accelerated the expansion of the modern sector of the domestic economy, the New Order regime could alter the nation's political edifice in ways which are congruent with the capitalist development. It is in this political economic framework that authoritarianism has been persistently justified as a necessary component of development.

A corollary of economic development carried out under authoritarian rule and within the international capitalist framework is that large parts of the population are excluded from the fruits of development and the benefits of the system. The *Malari* incident in 1974 clearly highlighted public unhappiness with

the rising economic dominance of foreign capital and domestic capitalists mostly consisting of Chinese entrepreneurs. As the regime followed the policies of state-led industrialization throughout the 1970s and, later, those of EOI, the fruits of economic development remained mostly centered in the hands of domestic and foreign elites.

To some extent, the establishment of state capitalism seemed to enable the regime to rectify the damage inflicted by the penetration of capitalist relations within the country. In this respect, state capital could be used to finance economic development based on top-down approaches. By doing so, what the so-called trickle-down effect of development could be created. Indeed, the 1945 Constitution stipulated that state involvement in the economy was the foundation of national development.

However, the ideological commitment to government involvement is subject to be exploited by the ruling elite. As discussed in chapter three, the establishment of state capitalism was mostly directed to raising funds for directly political purposes and a variety of non-governmental interests rather than being devoted to the accumulation and productive investment of capital for accelerating development. Because the regime had massive resources from the oil bonanza in the form of state-allocated monopolies and state corporations, it could retain the political power based on patrimonialism. In this respect, such monopolies and corporations became the main resources of politico-bureaucratic groups, their families and associates to establish private companies. In turn, they gave political support to the power holders. Consequently, as the political power was increasingly concentrated in the hands of the President, a small group of people concentrated the excessive wealth in their hands, either through misuse of funds on a massive scale, nepotism or favoritism.

Yet, surprisingly, in Indonesia although state capitalism mostly benefited the dominant elite, the government used the oil revenues relatively well. A big portion of public investment went into agriculture, including irrigation and fertilizer subsidies. Much of the spending on physical infrastructure went to rural public works. Briefly, the government not only attempted to accelerate the industrialization process, but also to promote agriculture and rural development. Due to the sound allocation of state revenues, poverty decreased dramatically, and social indicators, especially in education, health, and family planning service, were improved. More importantly, Indonesia successfully became self-sufficient in food.

However, these social improvements cannot be considered a realization of equal distribution of the fruits of development for the whole people for three reasons. First of all, although the economic circumstances of most people were improved, some sections of society have not had their material circumstances changed in some appreciable way. Indeed, programs and new technology launched to promote food self-sufficiency have serious implications on rural society, increased landlessness and unemployment, reduced neither the depth nor incidence of poverty and fueled the already high levels of urbanization. These problems in turn produced a low level of income which inevitably resulted in low purchasing power for the basic necessities of life. Secondly, the improvements were obviously aimed to compensate people for their political losses. Due to the fact that such incident as the *Malari* endangered the political power of the New Order ruling elite, political restructuring programs were massively launched to render the society powerless and apolitical. Finally, the improvement of economic circumstances of the population served the regime as sources of legitimation. The inauguration of President Suharto as the 'father of development' obviously indicated so. Thus, it is apparent that the government

had no political will to integrate the whole society into the political economic order both at national and international level on favorable terms.

As economic development steadily moved to the development of non-oil revenue after the dramatic decrease of international oil prices in the early 1980s, marginalization of large parts of the population remain unchanged. At the bottom level of society, economic liberalization caused various problems that have to do with social and economic deprivation, such as low wage rates, lax legislation governing working conditions, and ineffective pollution controls. These precarious conditions of people at the grass-roots level were then exacerbated by the privatization of health care and other public services, for the government could no longer finance the development based on top-down approaches. Consequently, those at the lower end of the economic spectrum were worse off materially than they were previously.

On the other hand, the economic deregulation launched since the mid-1980s unquestionably benefits domestic and foreign capitalists. Due to the principles of comparative advantage and allocative efficiency the strong national capitalist class and transnational capital become tightly interlocked, so that they are incorporated into the global political-economic order on favorable terms. Yet, liberalization in the economic field has a positive effect on civil society in a sense that it eventually raises demands for similar deregulation in the political field.

By 1990, the picture of political impotency of Indonesian society seemed to alter somewhat. Nowadays, people are more aware of their rights, and they are becoming more radical. Resentment over corruption and the business empire of the President's relatives and cronies seems wider. Various activist groups are sprouting and testing the might of the regime as never before. They have begun challenging the status quo. They are making demands that the

authorities will simply not yield to more representative government, a retreat by the military from its place at center-stage, a limit of two presidential terms, and political succession.

Nevertheless, despite demands for democratization, such demands do not guarantee that those marginalized can be favorably incorporated into the democratic life in Indonesia. As a matter of fact, demands for structural change in the political system derive from the rift in the military. As a part of the ruling elite that once had a considerable contribution in forming the strong New Order state, the military persists in retaining the dual function. As societal forces lack capability to organize a main force, they have little alternative but to cooperate with the military. However, they worry that they will end up with a raw deal. In fact, to what extent the military will retain its political influence in post-Suharto administrations will determine democratic life in Indonesia.

The doubt that democratic life can improve the condition of those marginalized is heightened by the fact that democracy requires active participation of the whole society in the decision-making process. Historically and theoretically, the level of involvement of the members of society in decision making is determined by the level of education and economic welfare. In Indonesia, income and education levels of most people are still low and latent ethnic and religious rivalries are still a real concern. Thus, it is unrealistic to expect a country such as Indonesia to achieve a point in its current development where political freedom is a prerequisite for economic development.

Approaching the 1997 general elections, there is little sign of significant change in the New Order political system. In this stagnant condition, it seems that the marginals will not have their conditions improved for several reasons. First of all, the Executive is still very powerful by the fact that the main pillars of

the New Order remain strong. Although, the ruling elite is divided, some groups of the military whose interests are secured by the state are still loyal to the Executive. Indeed, amidst the calls for economic liberalization, the New Order state still has a justification to brake the liberalization process. In order to counterbalance those opposed to the Executive, the President successfully derives support from various groups of the Islamic community.

Another reason is that the legal institutions underpinning the New Order government rest unchanged. The prevailing of the Subversive Act enables the government to exploit the most blatantly authoritarian laws. It is under the law that any expressing divergent views on such popular issues of the day as press freedom, land distribution, labor unions and the nation's credit structure are branded as enemies of the state.

Moreover, political institutions are also constrained. The government party, *Golkar*, is predominantly made up of government officials, who are required to support the party as an explicit condition of their employment. Within the political system, PDI and PPP play decorative roles rather than function as institutions channeling societal demands. Due to this format, the parliament, MPR and DPR, have always been dominated by the government party.

Additionally, Indonesia has continued to receive international support while winning nationalist points at home due to its good economic performance and relatively lower income inequality. In the 1980s, the Indonesian economy expanded at an average rate of 5.5 per cent. During the same period, the government made substantial improvements in the socio-economic life of many Indonesians. Not surprisingly, the World Bank, for instance, claims Indonesia's income inequality has declined substantially since 1965. Thus, because there is a growing proportion of the population enjoying the fruits of the New Order's

economic policies, although Suharto's legitimacy may be questioned, critics against him will not gain enough elite and popular support to endanger his rule.

Finally, it is apparent that Western countries who are increasingly concerned about human rights issues, cannot effectively press for more 'openness' to Indonesia. Given Indonesia's status as a potentially important trading partner and its competitive wage structure, major industrialized countries do not wish to jeopardize their relations with the country. Furthermore, nowadays, Indonesian capitalists have more capability to persuade Western countries to not aggressively promote the human rights issues than previously. The funds received by President Clinton during his recent presidential campaign from an Indonesian conglomerate strikingly indicated so. Indeed, free market economic policies initiated by those countries, in fact, do not promote democratic values. Instead, they exacerbate the conditions of the poor and the powerless.

Given that globalization has meant integrating elites of the Third World with those of the First World, prospects for change to marginalization are seemingly gloomy. Under the strong state rule and economic pressures from national and transnational capitalists, large numbers of Indonesians will continuously become the peripheral masses within the current political economic order, unless the ruling elite has the political will to remove the idea that bureaucracy is the primary route to political power and wealth. Yet, efforts taken to change the political structure ought to be evolutionary in order to ensure that all sections of society are favorably incorporated into a more democratic political system.

NOTES

CHAPTER I INTRODUCTION

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CHAPTER II CAUSES OF MARGINALIZATION: A LITERATURE REVIEW

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CHAPTER III THE MARGINALIZATION PROCESS UNDER THE NEW ORDER GOVERNMENT

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CHAPTER IV REACTIONS TO MARGINALIZATION

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APPENDIX 1

SOME STATE ENTERPRISES AND THEIR SUBSIDIARIES

Group	Business Area
I. GARUDA	
1. PT Garuda Indonesia	Airline
2. PT Merpati Nusantara	Airline
3. PT Aero Wisata	Tourism
4. PT Angkasa Citra Sarana	Catering
5. PT Mirta Sari Hotel Development Corp.	Hotel
6. PT Bukit Nusa Hotels Corp.	Hotel
7. PT Jasa Angkasa Semesta	Airport Ground Services
II. KRAKATAU STEEL	
1. PT Krakatau Steel	Holding Company
2. PT Cold Rolling Mill Indonesia Utama	Cold Rolling Steel Mill
3. PT Krakatau Hoogovens Int'l Pipe	Steel Pipes Industries
4. PT Industri Mesin Perkakas Indonesia	Machine Assembling
5. PT Krakatau Steel Industries Estate Cilegon	Industrial Estate and Property Mgmt.
6. PT Katama Betindo Int'l	Factory Construction
7. PT Krawindo Utama Dinamika	Mining and Stone Crushing
8. PT Pelat Timah Nusantara	Tin Plate
III. MEGA ELTRA	
1. PT Mega Eltra	Trading, Export-Import
2. PT Mega Daya Assembling	Electric Equipment
3. PT Mega Ganda Sarana Teknik	Bridge Component
4. PT Mega Guna Concrete	Concrete
5. PT Mega Putra Ganda Dinamika	Electrical Equipment
6. PT Sigma Utama	Paint Manufacturing

IV. PANTJA NIAGA

1. PT Pantja Niaga	Trading, Import-Export
2. PT Djengger Tour	Tourism
3. PT Gaputra Intra Motor	Automobile Dealer, Isuzu
4. PT Indonesian Consortium of Construction Industries	Contractor
5. PT Mesin Isuzu Industries	Isuzu Assembling
6. PT Pantja Bangun Contracting	Contractor
7. PT Pantja Motor	Agent and Distributor Isuzu
8. PT Partisipasi	Trading, Import-Export
9. PT Trisari Veem	International Freight Forwarders
10. PT Tropicom Utama Furniture	Rattan Manufacturing

V. RAJAWALI

1. PT PPEN Rajawali Nusantara Indonesia	Holding Company
2. PT Apotik Bima	Chemicals
3. PT Industrial Management	Industrial Consulting
4. PT Mutiara Rajawali	Industrial Consulting
5. PT Pabrik Gula Krebet Baru	Sugar Plantation and Factory
6. PT Pabrik Gula Rejo Agung	Sugar Plantation and Factory
7. PT Phapros	Pharmaceutical
8. PT Perkebunan Cimayak	Rubber Plantation
9. PT Perkebunan Karet Cileles	Rubber Plantation
10. PT Bandoreksa Rajawali	F. Forwarders, Warehousing
11. PT Rajawali Nusindo	Trading

VI. SEMEN GRESIK

1. PT Semen Gresik	Portland Cement
2. PT Eternit Gresik	Cement and Asbestos Building Material
3. PT Pan Esge	Data Processing Consultancy
4. PT Semen Cibinong	Portland Cement
5. PT Semen Kupang	Portland Cement
6. PT Semen Batu Raja	Portland Cement
7. PT Varia Usaha for Semen Gresik	Distributor and Transportation

VII. ELNUSA (Pertamina Subsidiary)

1. PT Elektronika Nusantara Engineering	Data Processing, Design, Oil Services
2. PT Elnusa Chem Link	Chemicals
3. PT Elnusa Multi Industri Komputer	Micro Computer Assembling
4. PT Elnusa Schlumberger	Data Processing, Oil and Gas Drilling
5. PT Elnusa Yellow Pages	Telephone Book Publisher
6. PT Medcom Indosa Enginnering	Engineering Consultancy
7. PT Nippon Steel Construction Indonesia (Nisconi)	Steel Construction
8. PT Indonesian Consortium of Construction Industries	Contactor
9. PT Elnusa Cono Ship Marine Engineering	Marine Engineering

VIII. BERDIKARI

1. PT PP Berdikari	Holding Company
2. PT Amro-Duta Leasing	Lease Financing
3. PT Asuransi Timur Jauh	Insurance
4. PT Batik Berdikari	Batik Textile
5. PT Berdikari Sari utama Flour Mill	Flour Mill
6. PT Berdikari United Livestock	Livestock Breeding
7. PT Duta PCI Leasing	Lease Financing
8. PT Duta International	Lease Financing
9. PT Duta Yasa Infotek	Data Processing
10. PT Graha Sarana Duta	Property Development
11. PT Kapas Indah Indonesia	Cotton Plantation
12. PT Ujung Lima Raya	Freight Forwarders
13. PT Ujung Lima selatan	Freight Forwarders
14. PT Ujung Lima	Freight Forwarders
15. PT Ujung Lima Timur	Freight Forwarders
16. PT Ujung Lima Utara	Freight Forwarders
17. PT World Trading Corporation	Trading, Import-Export

Source: Ahmad D. Habir. "State Enterprises: Reform and Policy Issues," p. 104-107 quotes Datatrust, July 31, 1989. In Hall Hill and Terry Hull, eds. *Indonesia Assesment 1990.* Canberra: Department of Political Social Change, Research School of Pasific Studies, The Australian National University, 1990.

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